

**GOLD CANYON SEWER COMPANY**

**DOCKET NO. SW-02519A-06-0015**

**SURREBUTTAL TESTIMONY**

**OF**

**WILLIAM A. RIGSBY, CRRA**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**AUGUST 30, 2006**

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**INTRODUCTION**

Q. Please state your name, occupation, and business address.

A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state the purpose of your surrebuttal testimony.

A. The purpose of my surrebuttal testimony is to respond to Gold Canyon Sewer Corporation's ("Gold Canyon" or "Company") rebuttal testimony on RUCO's recommended rate of return on invested capital (including RUCO's recommended capital structure and cost of debt) for the Company's wastewater operation located in Pinal County.

Q. Will your surrebuttal testimony address the rate base, operating revenue, operating expense, or rate design issues in the case?

A. No. Those issues and the issue of excess capacity will be addressed in the surrebuttal testimony of RUCO witness Rodney L. Moore.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, on June 16, 2006, I filed direct testimony with the Arizona Corporation Commission ("ACC" or "Commission") on Gold Canyon's application requesting a permanent rate increase. My direct testimony addressed the cost of capital issues associated with Gold Canyon's filing.

1 Q. How is your surrebuttal testimony organized?

2 A. My surrebuttal testimony contains three parts: the introduction that I have  
3 just presented, a summary of Gold Canyon's rebuttal testimony, and a  
4 section on the cost of capital issues.

5

6 **SUMMARY OF GOLD CANYON'S REBUTTAL TESTIMONY**

7 Q. Have you reviewed Gold Canyon's rebuttal testimony?

8 A. Yes. I have reviewed the Company's rebuttal testimony, which was filed  
9 on July 27, 2006.

10

11 Q. Briefly summarize the Company's rebuttal testimony.

12 A. The Company's cost of capital witness, Mr. Thomas J. Bourassa,  
13 disagrees with my recommendations on capital structure, hypothetical cost  
14 of debt and cost of common equity. He is also critical of the methods that  
15 I have used to derive my original recommended 9.04 percent cost of  
16 common equity for Gold Canyon.

17

18 **COST OF CAPITAL**

19 Q. Have you made any changes to the cost of common equity that you  
20 recommended in your direct testimony?

21 A. Yes. I have revised my recommended cost of common equity downward  
22 from 9.04 percent to 8.60 percent. The 8.60 percent figure was derived  
23 from an updated discounted cash flow model ('DCF') analysis, which used

1 an eight-week average of closing stock prices, data published in The  
2 Value Line Investment Survey ("Value Line") July 28, 2006 water utility  
3 industry update (Attachment A), and updated data from Zacks Investment  
4 Research, Inc. (Attachment B). My revised 8.60 percent estimate also  
5 takes into consideration forward-looking Value Line projections for the  
6 time frame that runs from 2006 through 2011. In addition to updating the  
7 stock price data used in the DCF model, I have also updated all of the  
8 components used in my capital asset pricing model ("CAPM") analysis,  
9 which is also impacted by stock price and interest rate (i.e. treasury yield)  
10 activity. Surrebuttal Schedules WAR-1 through WAR-9 will provide  
11 support for my revised 8.60 percent figure.

12  
13 Q. Has there been any recent activity in regard to interest rates?

14 A. Yes. On Tuesday, August 8, 2006, the Federal Reserve ("Fed") halted  
15 its series of seventeen consecutive quarter-point rate increases, which  
16 have boosted the federal funds rate from a level of 1.00 percent in mid-  
17 2004 to the current rate of 5.25 percent. The Fed's action was influenced  
18 by economic data on a slowing U.S. economy that could result in lower  
19 levels of inflation. While there is a debate among Fed watchers as to the  
20 impact of this pause, some analysts believe that the Fed had actually

1           gone too far in its rate increase campaign and that rate cuts could be a  
2           possibility depending on the direction that the economy takes<sup>1</sup>.

3

4   Q.    Please explain the main reason why your revised DCF results are lower  
5           than the DCF results that were presented in your direct testimony.

6   A.    The main reason is that the stock prices of the publicly traded water  
7           utilities included in my sample have declined in recent months as a result  
8           of rising interest rates. Investors who found the yields of these stocks  
9           attractive because of lower interest rates, created a demand that forced  
10          the prices of these stocks up. Now that interest rates have increased, the  
11          shine is off on water stocks and these same investors are selling their  
12          shares and putting their funds into instruments with more attractive yields.

13

14   Q.    Wouldn't the yields on the water utility stocks in your sample be higher  
15          because of the stock price declines?

16   A.    Yes. That is true. Since the dividends on these stocks have remained  
17          constant, the dividend yield component ( $D_1 \div P_0$ ) of my DCF model has  
18          increased from an average of 2.03 percent in my direct testimony, to my  
19          revised average of 2.36 percent. However, the lower stock prices and the  
20          updated Value Line estimates produced a lower DCF growth estimate (g).

21

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<sup>1</sup> Ip, Greg, "Fed Holds Interest Rates Steady As Slowdown Outweighs Inflation," The Wall Street Journal Online Edition, August 8, 2006.

1 Q. Please explain how the lower stock prices and the updated Value Line  
2 estimates produced a lower DCF growth estimate?

3 A. The growth component of my DCF model declined from the 7.01 percent  
4 estimate presented in my direct testimony to my revised figure of 6.25  
5 percent. The July 28, 2006 Value Line estimates have resulted in a lower  
6 internal growth (br) estimate that has dropped from 5.00 percent in my  
7 direct testimony to my revised estimate of 4.68 percent. My revised  
8 external growth estimates are partially a result of the lower stock prices  
9 that have produced lower market to book ratios for all four of the water  
10 utilities in my sample (i.e. the market-to-book ratios are moving closer to a  
11 ratio of 1.0). The lower market-to-book ratios have contributed to my  
12 lower external (sv) growth estimate of 1.57 percent estimate that is 43  
13 basis points lower than the 2.00 percent estimate presented in my direct  
14 testimony.

15  
16 Q. Please summarize the results of your revised cost of capital analysis.

17 A. A summary of my revised cost of capital analysis, on water utilities, is as  
18 follows:

| <u>METHOD</u> | <u>RESULTS</u> |
|---------------|----------------|
| DCF           | 8.60%          |
| CAPM          | 9.11% – 10.56% |

1 Q. Has Gold Canyon's witness made any changes to the Company-proposed  
2 cost of common equity as a result of the Value Line update?

3 A. The Company's witness stated that he had updated his models using data  
4 from Value Line's April 28, 2006 water utility industry update for the prior  
5 quarter, but is still proposing a 10.50 percent cost of common equity.  
6

7 Q. Briefly summarize the positions of the parties to the case in regard to  
8 capital structure, cost of debt, cost of equity and weighted cost of capital.

9 A. Both ACC Staff and the Company are recommending debt-free capital  
10 structures comprised of 100 percent common equity. RUCO is  
11 recommending a hypothetical capital structure comprised of 40 percent  
12 debt and 60 percent common equity, with a hypothetical cost of debt of  
13 8.45 percent. The costs of common equity being recommended are as  
14 follows:  
15

|    |                |        |
|----|----------------|--------|
| 16 | Gold Canyon    | 10.50% |
| 17 | ACC Staff      | 8.40%  |
| 18 | RUCO (revised) | 8.60%  |

19  
20 The weighted costs of capital being recommended by the parties to the  
21 case are as follows:  
22  
23



|   |                |        |
|---|----------------|--------|
| 1 | Gold Canyon    | 10.50% |
| 2 | ACC Staff      | 8.40%  |
| 3 | RUCO (revised) | 8.54%  |

4

5 **Capital Structure and Cost of Debt**

6 Q. Does the Company's witness recognize that the absence of financial risk  
7 in the Company-proposed capital structure, comprised of 100 percent  
8 common equity, merits a lower weighted cost of capital?

9 A. No. The Company's witness believes that a capital structure comprised of  
10 100 percent common equity is appropriate given Gold Canyon's size and  
11 the firm-specific risks that the Company faces.

12

13 Q. Please address the Company's position that your recommended capital  
14 structure is inappropriate given Gold Canyon's size.

15 A. The size arguments used by Mr. Bourassa in this case have been  
16 consistently rejected by the Commission in past rate case proceedings.  
17 For all practical purposes, Gold Canyon is no different from the many  
18 water and wastewater systems that comprise the water utilities used in my  
19 sample. These systems face the same types of risks and deal with the  
20 same types of problems that Gold Canyon faces.

21

22 ...

23

1 Q. Please comment on Mr. Bourassa's description of your hypothetical  
2 capital structure as a "one size fits all approach."

3 A. Mr. Bourassa's statement fails to take into consideration the fact that my  
4 recommended hypothetical capital structure is higher in equity than the  
5 average level of equity in the capital structures of my sample water  
6 utilities. This specifically takes into account any additional business risk  
7 that Gold Canyon may face. I have also recommended a hypothetical  
8 cost of debt, which includes an upward adjustment of 200 basis points  
9 above the average weighted costs of debt that I calculated for the water  
10 utilities included in my sample. Furthermore, both my recommended  
11 capital structure and my recommended cost of debt are close to both the  
12 2004 capital structure and cost of debt of Algonquin Power Income Fund,  
13 the publicly traded parent company of Gold Canyon. Consequently, Mr.  
14 Bourassa's "one size fits all" argument is groundless.

15  
16 Q. Do your revised recommendations result in a higher weighted average  
17 cost of capital than the average weighted cost of capital of the water  
18 utilities included in your sample?

19 A. Yes. As I just stated, my recommended hypothetical capital structure is  
20 actually heavier in equity than the average capital structure of my sample  
21 group, which was comprised of approximately 50.0 percent debt and 50.0  
22 percent equity. This gives Gold Canyon a higher weighted cost of capital  
23 than the utilities included in my sample, which have an average weighted

1 cost of capital of 7.54 percent based on the results of my analysis  
2 (Surrebuttal Schedule WAR-9). This 7.54 percent average for my sample  
3 is 100 basis points lower than my revised recommended weighted  
4 average cost of capital of 8.54 percent for Gold Canyon.

5

6 **Cost of Common Equity**

7 Q. Has Gold Canyon's cost of capital witness made any changes to the  
8 Company-proposed cost of common equity of 10.50 percent?

9 A. No.

10

11 Q. How did ACC Staff's cost of capital witness arrive at his final cost of equity  
12 estimate of 8.40 percent?

13 A. ACC Staff's witness, Mr. Steven Irvine, arrived at his estimate by  
14 averaging the results of his DCF and CAPM models to produce an  
15 unadjusted average of 9.20 percent. He then reduced his unadjusted  
16 average of 9.20 percent by making a downward financial risk adjustment  
17 of 80 basis points. This produced his final estimate of 8.40 percent. Mr.  
18 Irvine's financial risk adjustment produces the same weighted cost of  
19 capital that would be produced by a capital structure comprised of 60.0  
20 percent common equity and 40.0 percent debt, which is the same capital  
21 structure that I am recommending in this case. Mr. Irvine's final cost of  
22 capital estimate is 14 basis points lower than my revised recommended  
23 cost of capital estimate of 8.54 percent.

1 Q. What would your cost of equity estimate be if you were to average the  
2 results of your DCF and CAPM models as ACC Staff did before making a  
3 financial risk adjustment?

4 A. Averaging the results of my revised water company sample DCF result of  
5 8.60 percent, and my revised water company sample CAPM result, using  
6 a geometric mean, of 9.11 percent produces an estimate of 8.86 percent,  
7 which is 34 basis points lower than ACC Staff's unadjusted 9.20 percent  
8 estimate and 168 basis points lower than the Company's 10.50 percent  
9 estimate. Averaging the results of my revised water company sample  
10 DCF result of 8.60 percent, and my revised water company sample CAPM  
11 result, using an arithmetic mean, of 10.56 percent produces an estimate of  
12 9.58 percent, that is 38 basis points higher than ACC Staff's unadjusted  
13 9.20 percent estimate and 92 basis points lower than the Company's  
14 10.50 percent estimate. An average of my revised water company DCF  
15 result of 8.60 percent and both of my revised water company CAPM  
16 results of 10.56 percent and 9.11 percent results in an estimate of 9.43  
17 percent, which is 23 basis points higher than ACC Staff's unadjusted 9.20  
18 percent estimate and 107 basis points lower than the Company's 10.50  
19 percent estimate. The application of ACC Staff's financial risk adjustment  
20 to my 9.43 percent average of all of my models estimates, results in a cost  
21 of common equity of 8.63 percent which is 3 basis points higher than my  
22 recommended cost of common equity and 7 basis points higher than my  
23 recommended weighted cost of capital.

1 Q. Do you believe that Mr. Bourassa is characterizing Gold Canyon's risk  
2 properly when making his arguments regarding the risk that Gold Canyon  
3 faces as a result of the Company's size?

4 A. No. Mr. Bourassa attempts to make a case for a higher cost of common  
5 equity for Gold Canyon based on two size arguments.  
6

7 Q. What is Mr. Bourassa's first size argument?

8 A. Mr. Bourassa's first size argument was addressed earlier in my section on  
9 capital structure and deals with unique business risks faced by Gold  
10 Canyon as a result of the Company's size. However, in making this first  
11 argument he completely ignores the fact that Gold Canyon is a wholly  
12 owned subsidiary of Algonquin Power Income Fund, a large publicly  
13 traded entity that has access to capital markets. He also fails to recognize  
14 the fact that, in order to recognize the possibility of additional business risk  
15 that is unique to the Company, I am recommending a capital structure that  
16 is heavier in equity than the capital structures of the utilities included in my  
17 water company sample.  
18

19 Q. What is Mr. Bourassa's second size argument?

20 A. His second size argument deals with the capitalization of the Company. In  
21 making this argument he relies on information on the returns of small  
22 company stocks contained in Chapter 7 of Ibbotson Associate's SBBI  
23 2006 Yearbook. In making this argument, Mr. Bourassa fails to take into

1 consideration the seasonal nature of the higher returns of small publicly  
2 traded companies known as the “January effect.” The anomaly is  
3 addressed in Chapter 7 of Ibbotson’s text, which essentially states that the  
4 only time of the year in which small company stocks outperformed large  
5 company stocks is during the month of January. When the excess returns  
6 realized in January are removed, there is essentially no difference in the  
7 returns of small company stocks and large company stocks. I have  
8 always believed that Ibbotson’s seasonality discussion is something of a  
9 disclaimer for the small capitalization stock results that are presented in  
10 Chapter 7 of the SBBI text.

11  
12 Q. What exactly is the January effect?

13 A. The January effect refers to a situation, which has possibly existed for at  
14 least the last forty years, whereby small company stocks outperform large  
15 company stocks from the end of December through January. Research  
16 conducted in 1981 by Donald B. Keim<sup>2</sup> and later by Robert A. Haugen,<sup>3</sup>  
17 revealed that virtually all of the effect occurred in the month of January,  
18 and that a large part of the effect occurred within the first five days of  
19 January. After these price spikes are factored out, there is virtually no  
20 significant difference in the prices (which would affect the rates of return

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<sup>2</sup> Keim, D.B. “Size-Related Anomalies and Stock Return Seasonality: Further Empirical Evidence,” Journal of Financial Economics, Vol. 12, no. 1 (June. 1983): 13-32.

<sup>3</sup> Haugen, Robert A. and Philippe Jorion “The January Effect: Still There After All These Years,” Financial Analysts Journal. (Jan. Feb. 1996): 27-31.

1 on the stocks that are used to calculate beta) of small company stocks  
2 and large company stocks during the remaining eleven months of the  
3 year.

4  
5 Q. What exactly causes this difference in performance between small  
6 company and large company stocks?

7 A. The conventional wisdom on the subject is that the difference results from  
8 both portfolio balancing and tax-loss selling by large institutional investors  
9 (i.e. mutual and pension funds) at the end of December. Since this sell off  
10 (which results in a drop in small company stock prices) occurs at the end  
11 of the year, these same small company stocks tend to rebound during the  
12 early days of January. This is due to increased demand for small  
13 company stocks from optimistic investors. As a result of this increased  
14 demand, the prices of small company stocks are driven up higher than the  
15 prices for large company stocks.

16 Because the year-end sell off may be tax motivated, it has even been  
17 suggested that the policies of the federal government would essentially  
18 perpetuate the January effect on an annual basis. An absence of the  
19 January effect during the mid nineties may have occurred due to a shift in  
20 buying habits of younger investors who preferred large company stocks. If  
21 this actually were the case, the lack of demand kept the prices of small  
22 company stocks down and also in line with the prices of large company  
23 stocks. This only strengthens the argument that no real difference exists

1           between the prices of small company stocks and large company stocks  
2           and weakens Mr. Bourassa's argument for a higher return because of  
3           Gold Canyon's size.

4  
5   Q.    Are there any merits at all in Mr. Bourassa's size arguments?

6   A.    No. The size arguments being advanced by Mr. Bourassa have been  
7           consistently rejected by the Commission in past rate case proceedings  
8           that involved rate case witnesses such as Dr. Thomas Zepp (who Mr.  
9           Bourassa cites in his testimony). That aside, given the size and financial  
10          strength of the Company's parent, Algonquin Power Income Fund, which  
11          is publicly traded on the Toronto stock exchange and owns 100 percent of  
12          Gold Canyon, I fail to understand why Mr. Bourassa would even attempt to  
13          use size arguments in this case. For all practical purposes, Gold Canyon  
14          is no different from many other Arizona water or wastewater systems that  
15          are owned by large corporate entities. Nor for that matter is Gold Canyon  
16          any different or unique from the many water and wastewater systems that  
17          comprise the water utilities used in my sample.

18  
19  
20  
21  
22   ...



1 Q. Do you believe that Southwest Water Company ("SWWC") should have  
2 been excluded from your sample based on its percentage of revenues  
3 from water utility services as pointed out by the Company's cost of capital  
4 witness?

5 A. No. Mr. Bourassa believes that I am deliberately biasing my DCF dividend  
6 yield estimate downward by including SWWC in my sample. While it is  
7 true that regulated water utilities make up approximately 39.0 percent of  
8 total revenues for SWWC, those same regulated utilities will generate 67.0  
9 percent of SWWC's 2006 earnings according to Value Line's April 28,  
10 2006 water utility industry update. The majority of SWWC's remaining  
11 revenues and earnings are derived from activities that are closely related  
12 to the provision of regulated water and wastewater services (i.e.  
13 equipment maintenance and repair, sewer pipeline cleaning, billing and  
14 collection services, and state-certified water and wastewater laboratory  
15 analysis on a contract basis) as opposed to highly speculative activities  
16 that are totally unrelated to the water and wastewater industry. In fact,  
17 SWWC actually operates a large wastewater facility near Birmingham,  
18 Alabama. For these reasons I saw no need to exclude SWWC from my  
19 sample.

20  
21  
22 ...  
23

1 Q. Please address the Company's position that, in addition to your dividend  
2 yield estimate just discussed, your estimates of external growth are also  
3 biased downward.

4 A. The Company's cost of capital witness has taken issue with my calculation  
5 of "v" for the external growth rate estimate portion of the DCF's growth  
6 component. This calculation takes into consideration the fact that, while in  
7 theory a utility's stock price should move toward a market to book ratio of  
8 1.0 if regulators authorize a rate of return that is equal to a utility's cost of  
9 capital, in reality a utility will continue to issue shares of stock that are  
10 priced above book value.

11 As I explained on pages 17 through 18 of my direct testimony, this same  
12 assumption was incorporated into the DCF analysis performed by Mr.  
13 Stephen Hill, ACC Staff's cost of cost of capital witness in the Southwest  
14 Gas rate case proceeding. Mr. Hill used the same methods that I have  
15 used in arriving at the inputs for his DCF model. His final recommendation  
16 for Southwest Gas Corporation, which was adopted by the Commission,  
17 was largely based on the results of his DCF analysis, which incorporated  
18 the same valid market-to-book ratio assumption that I have used  
19 consistently in cases before the Commission.

20  
21  
22 ...  
23

1 Q. Please discuss the Company's criticism of your testimony that one of the  
2 desired effects of regulation is to achieve a market-to-book ratio of 1.0 on  
3 the common stock of an investor owned utility.

4 A. My direct testimony sets forth the premise that the market value of a  
5 utility's stock will tend to move toward book value, or a market-to-book  
6 ratio of 1.0, if regulators allow a rate of return that is equal to the cost of  
7 capital of firms with similar risk. This premise is recognized among  
8 practitioners who have testified in cost of capital proceedings<sup>4</sup>.

9 A utility's market price should equal its book price over the long run if  
10 regulators allow a rate of return that is equal to the utility's cost of capital.

11 That is assuming that the utility's rate of return ("ROR") is comparable to  
12 the rates of return of other firms in the same risk class. For example, if a  
13 hypothetical utility's book price is \$20.00 per share and regulators adopt a  
14 rate of return that is equal to the utility's cost of capital of 10.00 percent,  
15 the utility will earn \$2.00 per share ("EPS"). With earnings of \$2.00 per  
16 share, and a market required rate of return on equity of 10.00 percent, for  
17 firms in the utility's risk class, the market price of the utility's stock will set  
18 at \$20.00 per share ( $\$2.00 \text{ EPS} \div 10.00\% \text{ ROR} = \$20.00 \text{ per share price}$ ).

19 If the utility records earnings that are higher than the earnings of other  
20 firms with similar risk, the market value of the utility's shares will increase  
21 accordingly ( $\$2.50 \text{ EPS} \div 10.00\% \text{ ROR} = \$25.00 \text{ per share}$ ). On the other

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<sup>4</sup> Carleton, Willard T. and Morin, Roger A.

1 hand, if the utility posts lower earnings, the stock's market price will fall  
2 below book value ( $\$1.50 \text{ EPS} \div 10.00\% \text{ ROR} = \$15.00 \text{ per share}$ ).

3 Because of economic forces beyond the control of regulators, it is not  
4 reasonable to assume that the utility will have earnings that match those  
5 of firms of similar risk in every year of operation. In some years, earnings  
6 may drop causing the market-to-book ratio to fall below 1.0, while in other  
7 years the utility may have earnings that exceed those of other firms in its  
8 risk classification. However, over the long run the utility's earnings should  
9 average out to the earnings that are expected based on its level of risk.

10 These average earnings over time will result in a market-to-book ratio of  
11 1.0. A 1.0 ratio may never be achieved in practice and many investors  
12 may not even care what the market-to-book ratio is as long as they  
13 receive their required rate of return.

14

15 Q. Has the Company's witness taken issue with RUCO's use of CAPM?

16 A. Yes. Mr. Bourassa uses several arguments to support his belief that the  
17 CAPM should not have been used in this case. One of his arguments  
18 deals with the beta coefficient used in the CAPM and his other argument  
19 deals with the model itself and the inputs that I have used.

20

21 Q. Please comment on Mr. Bourassa's argument on beta.

22 A. Mr. Bourassa is opposed to the fact that both ACC Staff and RUCO have  
23 used the CAPM methodology, which uses the betas of publicly traded

1 water utilities as the central input. Because Gold Canyon is not publicly  
2 traded and has no beta, Mr. Bourassa believes that the CAPM estimates  
3 presented by RUCO and ACC Staff should be rejected. Applying Mr.  
4 Bourassa's logic on beta to the DCF, a similar argument could be made  
5 that since Gold Canyon has no publicly traded stock then a methodology  
6 such as the DCF, which uses the stock prices of publicly traded water  
7 utilities, should not be used either (an argument that Mr. Bourassa also  
8 advocates in his testimony). If you reject the results of RUCO's, ACC  
9 Staff's *and* Mr. Bourassa's DCF estimates, you are now left with nothing  
10 but Mr. Bourassa's risk premium and comparable earnings estimates.  
11 Since the risk premium methodology is, for all practical purposes, an  
12 offshoot of the CAPM, a good argument could be made to reject those  
13 results also given Mr. Bourassa's lack of confidence in CAPM theory. This  
14 now leaves only Mr. Bourassa's comparable earnings results, which in his  
15 analysis, are principally comprised of only historical information on, and  
16 estimates of, returns on book common equity that are by themselves not a  
17 firm's actual cost of capital and should also be rejected. We are now left  
18 with nothing but the authorized returns approved by regulators that were  
19 more than likely based on past recommendations of analysts who in all  
20 likelihood used the DCF, CAPM, risk premium and comparable earnings  
21 methodologies to arrive at their estimates during periods in which higher  
22 costs of common equity may have been warranted. After weighing the  
23 fact that the practice of relying solely on the prior authorized rates of

1 returns authorized by utility regulators (that do not take current economic  
2 conditions into consideration) as a method for setting new rates of return  
3 has long been discredited as being circular in its logic (and has pretty  
4 much been abandoned in favor of estimates derived from forward looking  
5 methodologies such as DCF and CAPM), Mr. Bourassa's cost of capital  
6 analysis has nothing left to offer other than his unyielding belief that Gold  
7 Canyon is somehow unique and that the Company's size alone merits a  
8 higher return. As I have stated earlier, Mr. Bourassa's size arguments  
9 completely ignore the fact that Gold Canyon is owned entirely by  
10 Algonquin Power Income Fund, a publicly traded entity that is essentially a  
11 large utility holding company that has access to the capital markets.

12  
13 Q. Have you read the paper authored by Professor Eugene F. Fama, of the  
14 University of Chicago and Professor Kenneth R. French of Dartmouth  
15 College ("Fama and French") that Mr. Bourassa cites on page 30 of his  
16 rebuttal testimony?

17 A. Yes.

18  
19 Q. Does the Fama and French article provide any new empirical evidence  
20 that supports Mr. Bourassa's contention that the CAPM is flawed?

21 A. Not at all. This particular Fama and French paper was published in the  
22 Summer 2004 edition of Journal of Economic Perspectives with another  
23 paper on CAPM that was authored by Harvard Professor Andre F. Perold.

1       The two articles were selected to commemorate the fortieth anniversary of  
2       the CAPM as a stock valuation methodology. Both articles highlight the  
3       well-established pros and cons of the model that have been debated since  
4       the late 1970's. The Fama and French article is noteworthy only because  
5       it revisits some of the same arguments that Fama and French originally  
6       advanced in a 1992 paper that set off the latter of two academic debates  
7       on the Sharpe Lintner version of the CAPM used in my analysis. Fama  
8       and French published their 1992 paper two years after William Sharpe  
9       shared the Nobel Prize in economics for his work in developing the CAPM.  
10      The conclusions published in the 1992 Fama and French paper were  
11      vigorously debated by a number of other noted scholars in the field of  
12      finance who essentially pulled the rug out from under a faction of Fama  
13      and French followers that proclaimed that "beta is dead" as a result of the  
14      1992 paper<sup>5</sup>. Dr. Roger Morin, another academic and cost of capital  
15      witness cited often by Mr. Bourassa, summed up the debate by  
16      paraphrasing American humorist Mark Twain on page 71 of his 1994 text,  
17      Regulatory Finance: Utilities' Cost of Capital, by stating that "the autopsy  
18      of beta was premature and reports of beta's death were greatly  
19      exaggerated." Even Fama and French recognized in their 2004 paper,  
20      that four decades after its introduction "the CAPM is still widely used in  
21      applications, such as estimating the cost of capital for firms and evaluating  
22      the performance of managed portfolios. It is the centerpiece of MBA

---

<sup>5</sup> Parcell, David C. The Cost of Capital – A Practitioner's Guide, 1997: 6-5 thru 6-13.

1 investment courses. Indeed, it is often the only asset pricing model taught  
2 in these courses.”

3

4 Q. Is the Company’s cost of capital witness correct in his criticism of CAPM?

5 A. I believe his argument is unwarranted and outdated. While it is true that  
6 the use of CAPM in rate case proceedings first came under fire twenty-five  
7 years ago, that hasn’t stopped cost of capital practitioners from using the  
8 model or public utility commissions from accepting the model’s results.  
9 Although I have always used CAPM in a supporting role, both at RUCO  
10 and at the ACC, two other expert witnesses (both of whom are Ph.D.’s)  
11 that filed testimony in recent Arizona-American cases<sup>6</sup> have chosen to use  
12 CAPM as their primary method for estimating their recommended costs of  
13 equity.

14

15 Q. Do you ever allow the results of your CAPM analysis to influence your final  
16 recommended costs of equity, which are generally derived from the DCF?

17 A. I have in some cases. However, for the most part, I consider the results  
18 obtained from CAPM in the same way that I consider other information on  
19 the economy and the water utility industry. If the Company’s witness were  
20 to review copies of prior testimony I have filed with the ACC, he would find  
21 that for the most part I have relied on my DCF results, even when my  
22 CAPM analyses, using both the arithmetic and the geometric means,

---

<sup>6</sup> Docket No.’s W-01303A-05-0405 and WS-01303A-06-0014.



1           produced lower estimates. The main reason for this is that I believe that  
2           stock prices, which are included in the DCF model, take into account the  
3           information that is reflected in the expected returns produced by the  
4           CAPM.

5

6   Q.   Please explain why Mr. Bourassa's statement regarding the use of a  
7           geometric mean in your CAPM analysis as being incorrect is unfounded.

8   A.   As I stated in my direct testimony there is an on-going debate as to which  
9           is the better average to rely on. The best argument in favor of the  
10          geometric mean is that it provides a truer picture of the effects of  
11          compounding on the value of an investment when return variability exists.  
12          This is particularly relevant in the case of the return on the stock market,  
13          which has had its share of ups and downs over the 1926 to 2004  
14          observation period used in my CAPM analysis.

15

16   Q.   Can you provide an example to illustrate the differences between the two  
17          averages?

18          Yes. The following example may help. Suppose you invest \$100 and  
19          realize a 20.0 percent return over the course of a year. So at the end of  
20          year 1, your original \$100 investment is now worth \$120. Now lets say  
21          that over the course of a second year you are not as fortunate and the  
22          value of your investment falls by 20.0 percent. As a result of this, the  
23          \$120 value of your original \$100 investment falls to \$96. An arithmetic

mean of the return on your investment over the two-year period is zero percent calculated as follows:

$$(\text{year 1 return} + \text{year 2 return}) \div \text{number of periods} =$$

$$(20.0\% + -20.0\%) \div 2 =$$

$$(0.0\%) \div 2 = \underline{0.0\%}$$

The arithmetic mean calculated above would lead you to believe that you didn't gain or lose anything over the two-year investment period and that your original \$100 investment is still worth \$100. But in reality, your original \$100 investment is only worth \$96. A geometric mean on the other hand calculates a compound return of negative 2.02 percent as follows:

$$(\text{year 2 value} \div \text{original value})^{1/\text{number of periods}} - 1 =$$

$$(\$96 \div \$100)^{1/2} - 1 =$$

$$(0.96)^{1/2} - 1 =$$

$$(0.9798) - 1 =$$

$$-0.0202 = \underline{-2.02\%}$$

So the geometric mean calculation illustrated above provides a truer picture of what happened to your original \$100 over the two-year investment period.

1 As can be seen in the preceding example, in a situation where return  
2 variability exists, a geometric mean will always be lower than an arithmetic  
3 mean, which probably explains why utility consultants typically put up a  
4 strenuous argument against the use of a geometric mean.

5

6 Q. Can you cite any other evidence that supports your use of both a  
7 geometric and an arithmetic mean?

8 A. Yes. In the third edition of their book, Valuation: Measuring and Managing  
9 the Value of Companies, authors Tom Copeland, Tim Koller and Jack  
10 Murrin ("CKM") make the point that, while the arithmetic mean has been  
11 regarded as being more forward looking in determining market risk  
12 premiums, a true market risk premium may lie somewhere between the  
13 arithmetic and geometric averages published in Ibbotson's SBBI  
14 yearbook.

15

16 Q. Please explain.

17 A. In order to believe that the results produced by the arithmetic mean are  
18 appropriate, you have to believe that each return possibility included in the  
19 calculation is an independent draw. However, research conducted by  
20 CKM demonstrates that year-to-year returns are not independent and are  
21 actually autocorrelated (i.e. a relationship that exists between two or more  
22 returns, such that when one return changes, the other, or others, also  
23 change), meaning that the arithmetic mean has less credence. CKM also

1 explain two other factors that would make the Ibbotson arithmetic mean  
2 too high. The first factor deals with the holding period. The arithmetic  
3 mean depends on the length of the holding period and there is no "law"  
4 that says that holding periods of one year are the "correct" measure.  
5 When longer periods (e.g. 2 years, 3 years etc.) are observed, the  
6 arithmetic mean drops about 100 basis points. The second factor deals  
7 with a situation known as survivor bias. According to CKM, this is a well-  
8 documented problem with the Ibbotson historical return series in that it  
9 only measures the returns of successful firms. That is, those firms that  
10 are listed on stock exchanges. The Ibbotson historical return series does  
11 not measure the failures, of which there are many. Therefore, the return  
12 expectations in the future are likely to be lower than the Ibbotson historical  
13 averages. After conducting their analysis, CKM conclude that 4.0 percent  
14 to 5.5 percent is a reasonable forward looking market risk premium.  
15 Adding the current 5-year Treasury yield of 4.9 percent to these two  
16 estimates indicate a cost of equity of 8.9 percent to 10.4 percent. Given  
17 the fact that utilities generally exhibit less risk than industrials, a return in  
18 the low end of this range is reasonable.

19  
20 Q. Should any of Mr. Bourassa's testimony that restates your CAPM results  
21 be given any weight?

22 A. No. Simply put, Mr. Bourassa wants to have it both ways in regard to  
23 CAPM in this case. First he fails to conduct a CAPM analysis in his direct

1 testimony. In his rebuttal testimony he attacks RUCO and ACC Staff's  
2 practice of using the betas of publicly traded water utilities and the concept  
3 of beta in general (which is the cornerstone of CAPM theory). Then, after  
4 presenting a number of reasons why he believes that the CAPM model is  
5 problematic, he develops his own set of inputs, along with the calculated  
6 beta that I have used, and then plugs them into the same CAPM model  
7 that he described on page 30 of his rebuttal as "flawed." In short he  
8 wants the Commission to accept the results of a model that he doesn't  
9 even believe in when his inputs in that model produce results that justify  
10 his recommended cost of common equity.

11  
12 Q. Has any of the rebuttal testimony presented by Gold Canyon's witnesses  
13 convinced you to make any upward adjustments to your revised  
14 recommended cost of common equity?

15 A. No.

16  
17 Q. Does your silence on any of the issues or positions addressed in the  
18 rebuttal testimony of the Company's witnesses constitute acceptance?

19 A. No, it does not.

20  
21 Q. Does this conclude your surrebuttal testimony on Gold Canyon?

22 A. Yes, it does.

# **ATTACHMENT A**

Investors have turned their backs on water utility stocks in recent months, sending the perennial market underperforming Water Utilities Industry plummeting to the lower levels of the *Value Line* investment universe for Timeliness. The group is now ranked 94th out of 97 industries, based on our momentum-based ranking system.

Ironically, we think that the industry's fundamentals are actually better than they've been in years and that the recent pullback was merely a market correction. Indeed, more normal weather conditions, a better regulatory environment, and heavy consolidation augur well for the near-term profitability of most of the issues covered in the next few pages.

That said, we remain concerned about the industry's long-term prospects. Although the aforementioned changes should boost profits in the coming six to 12 months, escalating infrastructure costs are still threatening the industry's longer-term earnings potential. As a result, not a single issue in this industry holds much 3- to 5-year appreciation potential, despite the recent selloff. Making matters worse, none stand out for income appeal any longer, given that there are better yield opportunities out there now.

#### Near-Term Outlook

Water utility companies have struggled with unfavorably wet weather and an unfriendly regulatory environment for the lion's share of the past couple of years. However, both look to be on the mend. Although we obviously cannot predict the weather, recent results point to a return to more normalized conditions going forward. Meanwhile, regulatory bodies, which are designed to maintain a balance of power between consumers and providers, have been handing down more favorable and more timely case rulings of late in most instances. For example, the California Public Utilities Commission, long an adversary of Cal-based utilities, has undergone a personnel metamorphosis and, subsequently, has changed its tune. This is extremely good news for utility companies as they typically file a few general rate cases each year requesting a step up in rates.

#### Longer-term Concerns

Increasingly more rigorous Environmental Protection Agency (EPA) regulatory laws on pipeline and well

#### INDUSTRY TIMELINESS: 94 (of 97)

infrastructures will probably make it difficult for water utility companies to maintain the earnings momentum that we anticipate this year out to late decade. Current infrastructures are well over 100 years old in many cases and require maintenance, if not significant rebuilding. Even worse, the agency is stepping up drinking water purification standards in light of the political angst currently afflicting the world. In fact, infrastructure repair costs are expected to climb to the hundreds of millions of dollars over the next two decades. With this in mind, it is likely that capital expenditures will continue to rise over the next couple of years. However, many of the smaller water companies lack the capital to undergo these initiatives and are being forced to shop their businesses to larger suitors. Many of these bigger companies, though, with the means to meet these higher costs, have been using the weakness to improve their operations and increase their presence. *Aqua America*, the largest water utility in our Survey, for example, has been on a major buying spree recently, making more than 100 acquisitions in the past five years. It has drastically increased its customer base and clearly improved its longer-term prospects. It, therefore, holds the best 3- to 5-year appreciation potential of the all the stocks in this industry.

#### Investment Advice

We recommend that most investors avoid the issues in the Water Utilities Industry. Not one is timely or holds above-average 3- to 5-year appreciation potential. Although the industry has long been a haven for income-minded investors, such is no longer the case. Higher interest-rates have increased the income-producing appeal of alternative investments, making the yields found in this industry modestly appealing at best. On that note, we think that the only issue that may stand out at this juncture is California Water. Its 2 Safety rank, coupled with its historically steady stream of income, may appeal to more-conservative investors. Nevertheless, we recommend that potential investors take a more in-depth look at the individual reports of each company before making a financial commitment.

*Andre J. Costanza*

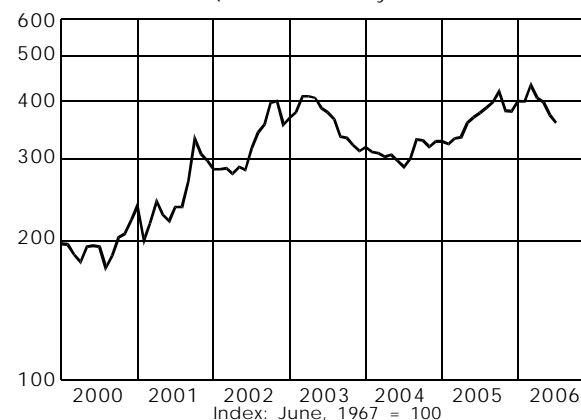
Composite Statistics: Water Utility Industry

| 2002   | 2003   | 2004   | 2005   | 2006  | 2007  |                        | 09-11 |
|--------|--------|--------|--------|-------|-------|------------------------|-------|
| 925.2  | 1030.0 | 1173.6 | 1256.9 | 1370  | 1485  | Revenues (\$mill)      | 1825  |
| 107.8  | 112.6  | 105.7  | 148.3  | 165   | 185   | Net Profit (\$mill)    | 255   |
| 38.6%  | 39.7%  | 39.1%  | 39.0%  | 39.0% | 39.0% | Income Tax Rate        | 39.0% |
| --     | --     | --     | --     | Nil   | Nil   | AFUDC % to Net Profit  | Nil   |
| 54.1%  | 51.0%  | 49.1%  | 52.0%  | 51.0% | 50.0% | Long-Term Debt Ratio   | 50.0% |
| 45.7%  | 48.8%  | 50.7%  | 48.0%  | 49.0% | 50.0% | Common Equity Ratio    | 50.0% |
| 2116.4 | 2449.1 | 2785.6 | 3057.5 | 3300  | 3565  | Total Capital (\$mill) | 4575  |
| 2955.1 | 3405.6 | 3836.9 | 4194.7 | 4500  | 4740  | Net Plant (\$mill)     | 5675  |
| 6.9%   | 5.9%   | 6.0%   | 7.0%   | 7.5%  | 8.0%  | Return on Total Cap'l  | 8.5%  |
| 11.1%  | 8.8%   | 9.0%   | 9.8%   | 10.0% | 10.5% | Return on Shr. Equity  | 11.0% |
| 11.1%  | 8.8%   | 9.0%   | 9.8%   | 10.0% | 10.5% | Return on Com Equity   | 11.0% |
| 4.0%   | 2.7%   | 3.1%   | 3.7%   | 4.0%  | 4.5%  | Retained to Com Eq     | 5.0%  |
| 64%    | 70%    | 66%    | 63%    | 60%   | 55%   | All Div'ds to Net Prof | 55%   |
| 21.6   | 25.6   | 25.4   |        |       |       | Avg Ann'l P/E Ratio    | 18.0  |
| 1.18   | 1.46   | 1.34   |        |       |       | Relative P/E Ratio     | 1.20  |
| 3.0%   | 2.7%   | 2.6%   |        |       |       | Avg Ann'l Div'd Yield  | 2.5%  |

*Bold figures are Value Line estimates*

Water Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



# AMER. STATES WATER NYSE-AWR

RECENT PRICE **37.73**

P/E RATIO **23.6** (Trailing: 25.8 Median: 17.0)

RELATIVE P/E RATIO **1.36**

DIV'D YLD **2.4%**

VALUE LINE

**TIMELINESS** 3 Raised 3/24/06  
**SAFETY** 3 New 2/4/00  
**TECHNICAL** 3 Lowered 6/30/06  
**BETA** .75 (1.00 = Market)

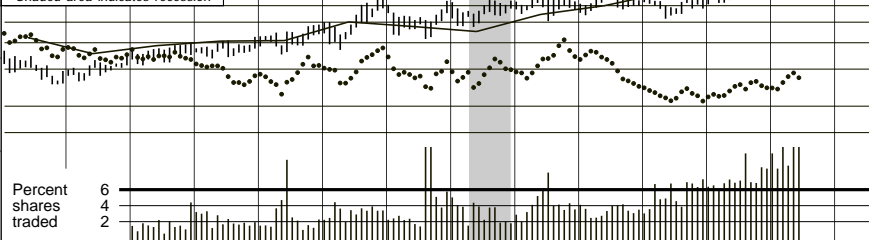
High: 14.0 16.1 17.1 19.5 26.5 25.3 26.4 29.0 29.0 26.8 34.6 43.8  
 Low: 10.5 12.5 13.5 14.1 14.8 16.7 19.0 20.3 21.6 20.8 24.3 30.3

LEGENDS  
 1.25 x Dividends p sh  
 divided by Interest Rate  
 .... Relative Price Strength  
 2-for-1 split 10/93  
 3-for-2 split 6/02  
 Options: No  
 Shaded area indicates recession

**2009-11 PROJECTIONS**  
 Price Gain Ann'l Total  
 High 45 (+20%) 7%  
 Low 30 (-20%) -3%

**Insider Decisions**  
 S O N D J F M A M  
 to Buy 0 0 0 0 0 0 1 0 0  
 Options 0 0 0 0 0 0 0 0 5  
 to Sell 0 0 0 0 0 0 0 0 5

**Institutional Decisions**  
 302005 402005 102006  
 to Buy 54 48 51  
 to Sell 33 41 44  
 Hld's(000) 6302 6273 7223



% TOT. RETURN 6/06  
 THIS STOCK VL ARITH. INDEX  
 1 yr. 24.8 11.8  
 3 yr. 43.0 63.9  
 5 yr. 85.0 59.7

| 1990 | 1991 | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | © VALUE LINE PUB., INC.          | 09-11 |
|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---|-------|----------------------------------|-------|
| 9.58 | 9.15 | 10.10 | 9.27  | 10.43 | 11.03 | 11.37 | 11.44 | 11.02 | 12.91 | 12.17 | 13.06 | 13.78 | 13.98 | 13.61 | 14.06 | 15.45                                       | 15.60 | Revenues per sh                  | 18.05 |
| 1.49 | 1.78 | 1.81  | 1.67  | 1.68  | 1.75  | 1.75  | 1.85  | 2.04  | 2.26  | 2.20  | 2.53  | 2.54  | 2.08  | 2.23  | 2.64  | 3.00  | 3.05  | "Cash Flow" per sh               | 3.60  |
| .94  | 1.19 | 1.15  | 1.11  | .95   | 1.03  | 1.13  | 1.04  | 1.08  | 1.19  | 1.28  | 1.35  | 1.34  | .78   | 1.05  | 1.32  | 1.60  | 1.65  | Earnings per sh <sup>A</sup>     | 1.90  |
| .72  | .73  | .77   | .79   | .80   | .81   | .82   | .83   | .84   | .85   | .86   | .87   | .87   | .88   | .89   | .90   | .91   | .92   | Div'd Decl'd per sh <sup>B</sup> | .96   |
| 2.53 | 2.77 | 2.31  | 1.90  | 2.43  | 2.19  | 2.40  | 2.58  | 3.11  | 4.30  | 3.03  | 3.18  | 2.68  | 3.76  | 5.03  | 4.24  | 4.00  | 4.10  | Cap'l Spending per sh            | 4.50  |
| 7.54 | 8.39 | 8.85  | 9.95  | 10.07 | 10.29 | 11.01 | 11.24 | 11.48 | 11.82 | 12.74 | 13.22 | 14.05 | 13.97 | 15.01 | 15.72 | 17.00                                       | 17.85 | Book Value per sh                | 20.00 |
| 9.43 | 9.91 | 9.96  | 11.71 | 11.77 | 11.77 | 13.33 | 13.44 | 13.44 | 13.44 | 15.12 | 15.12 | 15.18 | 15.21 | 16.75 | 16.80 | 17.50                                       | 18.25 | Common Shs Outst'g <sup>C</sup>  | 20.50 |
| 10.2 | 8.8  | 10.6  | 13.4  | 12.8  | 11.6  | 12.6  | 14.5  | 15.5  | 17.1  | 15.9  | 16.7  | 18.3  | 31.9  | 23.2  | 21.9  | Bold figures are<br>Value Line<br>estimates |       | Avg Ann'l P/E Ratio              | 19.5  |
| .76  | .56  | .64   | .79   | .84   | .78   | .79   | .84   | .81   | .97   | 1.03  | .86   | 1.00  | 1.82  | 1.23  | 1.17  |   |       | Relative P/E Ratio               | 1.25  |
| 7.5% | 7.0% | 6.3%  | 5.3%  | 6.6%  | 6.7%  | 5.8%  | 5.5%  | 5.0%  | 4.2%  | 4.2%  | 3.9%  | 3.6%  | 3.5%  | 3.6%  | 3.1%  |   |       | Avg Ann'l Div'd Yield            | 2.6%  |

**CAPITAL STRUCTURE as of 3/31/06**  
 Total Debt \$299.9 mill. Due in 5 Yrs \$30.0 mill.  
 LT Debt \$268.3 mill. LT Interest \$20.0 mill.  
 (LT interest earned: 4.4x: total interest coverage: 4.1x) (50% of Cap'l)

**Leases, Uncapitalized:** None  
**Pension Assets-12/05** \$56.6 mill.  
**Oblig.** \$83.2 mill.  
**Pfd Stock** None. **Pfd Div'd** None.

**Common Stock** 16,825,639 shs.  
**MARKET CAP:** \$625 million (Small Cap)

| CURRENT POSITION (\$MILL.) | 2004 | 2005 | 3/31/06 |
|----------------------------|------|------|---------|
| Cash Assets                | 4.3  | 13.0 | 14.4    |
| Receivables                | 14.3 | 13.3 | 10.0    |
| Inventory (Avg Cst)        | 1.5  | 1.4  | 1.4     |
| Other                      | 32.9 | 41.2 | 42.0    |
| Current Assets             | 53.0 | 68.9 | 67.8    |
| Accts Payable              | 18.2 | 19.7 | 20.0    |
| Debt Due                   | 45.9 | 27.6 | 31.6    |
| Other                      | 22.2 | 30.3 | 48.4    |
| Current Liab.              | 86.3 | 77.6 | 80.4    |
| Fix. Chg. Cov.             | 246% | 325% | 335%    |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '03-'05 to '09-'11 |
|---------------------------------|--------------|-------------|--------------------------|
| Revenues                        | 3.0%         | 3.0%        | 3.5%                     |
| "Cash Flow"                     | 3.0%         | 1.5%        | 4.5%                     |
| Earnings                        | -            | -2.5%       | 4.5%                     |
| Dividends                       | 1.0%         | 1.0%        | 1.0%                     |
| Book Value                      | 4.0%         | 4.5%        | 5.0%                     |

| Cal-<br>endar | QUARTERLY REVENUES (\$ mill.) |         |         |         | Full<br>Year |
|---------------|-------------------------------|---------|---------|---------|--------------|
|               | Mar.31                        | Jun. 30 | Sep. 30 | Dec. 31 |              |
| 2003          | 46.7                          | 51.8    | 63.7    | 50.5    | 212.         |
| 2004          | 46.7                          | 59.3    | 69.0    | 53.0    | 228.         |
| 2005          | 49.8                          | 60.5    | 68.1    | 57.8    | 236.         |
| 2006          | 60.6                          | 68.0    | 77.0    | 64.4    | 270          |
| 2007          | 63.0                          | 73.0    | 81.0    | 68.0    | 285          |

| Cal-endar | EARNINGS PER SHARE <sup>A</sup> |         |         |         | Full Year |
|-----------|---------------------------------|---------|---------|---------|-----------|
|           | Mar.31                          | Jun. 30 | Sep. 30 | Dec. 31 |           |
| 2003      | .20                             | .19     | .51     | d.12    | .78       |
| 2004      | .08                             | .30     | .52     | .15     | 1.05      |
| 2005      | .22                             | .34     | .47     | .29     | 1.32      |
| 2006      | .35                             | .38     | .55     | .32     | 1.60      |
| 2007      | .31                             | .42     | .58     | .34     | 1.65      |

| Cal-<br>endar | QUARTERLY DIVIDENDS PAID <sup>B</sup> |        |        |        | Full<br>Year |
|---------------|---------------------------------------|--------|--------|--------|--------------|
|               | Mar.31                                | Jun.30 | Sep.30 | Dec.31 |              |
| 2002          | .217                                  | .217   | .217   | .221   | .87          |
| 2003          | .221                                  | .221   | .221   | .221   | .88          |
| 2004          | .221                                  | .221   | .221   | .225   | .89          |
| 2005          | .225                                  | .225   | .225   | .225   | .90          |
| 2006          | .225                                  | .225   |        |        |              |

**BUSINESS:** American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to approximately 23,000 customers in the city of Big Bear

**We have raised our 2006 share-net estimate for American States Water by \$0.15, to \$1.60.** Although \$0.11 of the increase is attributable to a better-than-expected first quarter, we have also raised our second-half estimate by roughly a nickel. Usage rates for water are rising. We suspect that this trend will continue as the year progresses and weather patterns take a more normal shape. Water consumption levels declined about 4% in 2005 because of unusually rainy conditions. Meanwhile, we are also encouraged by recent changes to the California Public Utilities Commission (CPUC). Long a nemesis to utility companies looking for rate relief, the CPUC is showing signs of being more business friendly in recent months. Indeed, the board has been redesigned and now looks to be handing down more timely and favorable rulings. This is a major boon for AWR.

**Still, we look for earnings growth to slow in 2007.** Despite the improving regulatory backdrop, we remain extremely concerned about elevated infrastructure costs, given the state of the company's water systems. Indeed, EPA demands for water

Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00); 11,400 customers. Has roughly 515 employees. Off. & dir. own 3.1% of common stock (4/06 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Incorporated: CA. Add.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel.: 909-394-3600. Web: www.aswater.com.

quality will likely only grow more stringent with time. Unfortunately, AWR does not have the means to fund many of these changes internally and will likely have to look to equity and debt markets in order to do so. Such undertakings will likely cause earnings growth to slow considerably in 2007 and to late decade, as well as preclude the company from participating in the attractive acquisition market. We estimate earnings of \$1.65 a share in 2007.

**We think that most investors would be better served to look elsewhere.** Although untimely AWR shares have tumbled roughly 10% since our April report, their 3- to 5-year total-return potential is unexciting, given the concerns we have about infrastructure costs. In fact, the stock is trading within our 2009-2011 Target Price Range. Meanwhile, there are better income vehicles out there at this time. It should be noted, however, that the company's foray into military bases is paying off. Continued progression in this area could be accretive to our current 2009-2011 projections.

Andre J. Costanza

July 28, 2006

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢; '05, 25¢. Quarterly earnings may not sum due to change in share count. Next earnings report due early August.

(B) Dividends historically paid in early March, June, September, December. ■ Div'd reinvestment plan available.

(C) In millions, adjusted for splits.

|                              |     |
|------------------------------|-----|
| Company's Financial Strength | B++ |
| Stock's Price Stability      | 80  |
| Price Growth Persistence     | 80  |
| Earnings Predictability      | 60  |

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# CALIFORNIA WATER NYSE-CWT

RECENT PRICE **36.25** P/E RATIO **22.0** (Trailing: 24.5; Median: 19.0) RELATIVE P/E RATIO **1.26** DIV'D YLD **3.2%** **VALUE LINE**

|            |     |                 |   |      |      |      |      |      |      |      |      |      |      |      |      |  |  |  |        |       |       |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|------------|-----|-----------------|---|------|------|------|------|------|------|------|------|------|------|------|------|--|--|--|--------|-------|-------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| TIMELINESS | 4   | Raised 11/4/05  | High:   | 17.6 | 21.9 | 29.6 | 33.8 | 32.0 | 31.4 | 28.6 | 26.9 | 31.4 | 37.9 | 42.1 | 45.8 |  |  |  | Target | Price | Range |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| SAFETY     | 2   | Lowered 8/11/95 | Low:  | 14.8 | 16.3 | 18.6 | 20.8 | 22.6 | 21.5 | 22.9 | 20.5 | 23.7 | 26.1 | 31.2 | 32.8 |  |  |  | 2009   | 2010  | 2011  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| TECHNICAL  | 3   | Lowered 7/7/06  | <div>LEGENDS</div> <div><div></div>1.33 x Dividends p sh</div> <div><div></div>divided by Interest Rate</div> <div><div></div>.... Relative Price Strength</div> <div><div></div>2-for-1 split 1/98</div> |      |      |      |      |      |      |      |      |      |      |      |      |  |  |  |        |       |       |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| BETA       | .80 | (1.00 = Market) |   |      |      |      |      |      |      |      |      |      |      |      |      |  |  |  |        |       |       |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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| 2009-11 PROJECTIONS |  |  |  | Options: No<br>Shaded area indicates recession |  | 2-for-1 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | </ |  |
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| 1990  | 1991  | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006   | 2007  | © VALUE LINE PUB., INC.          | 09-11 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--|-------|----------------------------------|-------|
| 10.93 | 11.18 | 12.29 | 13.34 | 12.59 | 13.17 | 14.48 | 15.48 | 14.76 | 15.96 | 16.16 | 16.26 | 17.33 | 16.37 | 17.18 | 17.44 | 17.30  | 18.70 | Revenues per sh                  | 21.60 |
| 1.97  | 1.98  | 1.92  | 2.25  | 2.02  | 2.07  | 2.50  | 2.92  | 2.60  | 2.75  | 2.52  | 2.20  | 2.65  | 2.51  | 2.83  | 3.04  | 3.05   | 3.40  | "Cash Flow" per sh               | 3.60  |
| 1.25  | 1.21  | 1.09  | 1.35  | 1.22  | 1.17  | 1.51  | 1.83  | 1.45  | 1.53  | 1.31  | .94   | 1.25  | 1.21  | 1.46  | 1.47  | 1.65   | 1.75  | Earnings per sh <sup>A</sup>     | 1.80  |
| .87   | .90   | .93   | .96   | .99   | 1.02  | 1.04  | 1.06  | 1.07  | 1.09  | 1.10  | 1.12  | 1.12  | 1.12  | 1.13  | 1.14  | 1.15   | 1.16  | Div'd Decl'd per sh <sup>B</sup> | 1.22  |
| 2.36  | 3.03  | 3.09  | 2.53  | 2.26  | 2.17  | 2.83  | 2.61  | 2.74  | 3.44  | 2.45  | 4.09  | 5.82  | 4.39  | 3.73  | 5.14  | 5.00   | 4.50  | Cap'l Spending per sh            | 4.00  |
| 10.04 | 10.35 | 10.51 | 10.90 | 11.56 | 11.72 | 12.22 | 13.00 | 13.38 | 13.43 | 12.90 | 12.95 | 13.12 | 14.44 | 15.66 | 15.98 | 16.70  | 17.50 | Book Value per sh <sup>C</sup>   | 20.45 |
| 11.38 | 11.38 | 11.38 | 11.38 | 12.49 | 12.54 | 12.62 | 12.62 | 12.62 | 12.94 | 15.15 | 15.18 | 15.18 | 16.93 | 18.37 | 18.39 | 19.00  | 19.50 | Common Shs Outst'g <sup>D</sup>  | 22.00 |
| 10.4  | 11.2  | 14.1  | 13.6  | 14.1  | 13.7  | 11.9  | 12.6  | 17.8  | 17.8  | 19.6  | 27.1  | 19.8  | 22.1  | 20.1  | 24.9  | <b>Bold figures are Value Line estimates</b> |       | Avg Ann'l P/E Ratio              | 19.0  |
| .77   | .72   | .86   | .80   | .92   | .92   | .75   | .73   | .93   | 1.01  | 1.27  | 1.39  | 1.08  | 1.26  | 1.06  | 1.30  |  |       | Relative P/E Ratio               | 1.25  |
| 6.7%  | 6.6%  | 6.1%  | 5.2%  | 5.8%  | 6.4%  | 5.8%  | 4.6%  | 4.2%  | 4.0%  | 4.3%  | 4.4%  | 4.5%  | 4.2%  | 3.9%  | 3.1%  |  |       | Avg Ann'l Div'd Yield            | 3.5%  |

|   |  |  |  |       |       |       |       |       |       |       |       |       |       |       |       |                               |       |
|---|--|--|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------------------------|-------|
| <b>CAPITAL STRUCTURE as of 3/31/06</b>  |  |  |  | 182.8 | 195.3 | 186.3 | 206.4 | 244.8 | 246.8 | 263.2 | 277.1 | 315.6 | 320.7 | 345   | 365   | Revenues (\$mill)             | 475   |
| <b>Total Debt</b> \$282.4 mill. <b>Due in 5 Yrs</b> \$9.0 mill.   |  |  |  | 19.1  | 23.3  | 18.4  | 19.9  | 20.0  | 14.4  | 19.1  | 19.4  | 26.0  | 27.2  | 30.0  | 35.0  | <b>Net Profit</b> (\$mill)    | 40.0  |
| <b>LT Debt</b> \$273.8 mill. <b>LT Interest</b> \$18.5 mill.  |  |  |  | 38.9% | 37.4% | 36.4% | 37.9% | 42.3% | 39.4% | 39.7% | 39.9% | 39.6% | 42.4% | 40.0% | 40.5% | <b>Income Tax Rate</b>        | 40.0% |
| (LT interest earned: 3.5x; total int. cov.: 3.2x)   |  |  |  | --    | --    | --    | --    | --    | --    | --    | 10.3% | --    | --    | Nil   | Nil   | <b>AFUDC % to Net Profit</b>  | Nil   |
| <b>Pension Assets-12/05</b> \$70.2 mill.<br><b>Oblig.</b> \$103.2 mill.<br><b>Pfd Stock</b> \$3.5 mill. <b>Pfd Div'd</b> \$.15 mill.<br>139,000 shares, 4.4% cumulative (\$25 par). |  |  |  | 47.4% | 45.4% | 44.2% | 46.9% | 48.9% | 50.3% | 55.3% | 50.2% | 48.6% | 48.0% | 48.5% | 49.0% | <b>Long-Term Debt Ratio</b>   | 49.5% |
|   |  |  |  | 51.4% | 53.5% | 54.7% | 52.0% | 50.2% | 48.8% | 44.0% | 49.1% | 50.8% | 51.4% | 51.0% | 50.5% | <b>Common Equity Ratio</b>    | 50.0% |
| <b>Common Stock</b> 18,406,638 shs.<br>as of 5/2/06<br><b>MARKET CAP:</b> \$675 million (Small Cap)   |  |  |  | 299.9 | 306.7 | 308.6 | 333.8 | 388.8 | 402.7 | 453.1 | 498.4 | 565.9 | 571.6 | 625   | 675   | <b>Total Capital (\$mill)</b> | 900   |
|   |  |  |  | 443.6 | 460.4 | 478.3 | 515.4 | 582.0 | 624.3 | 697.0 | 759.5 | 800.3 | 856.7 | 925   | 950   | <b>Net Plant (\$mill)</b>     | 1125  |
|   |  |  |  | 8.3%  | 9.4%  | 7.8%  | 7.8%  | 6.8%  | 5.3%  | 5.9%  | 5.6%  | 6.1%  | 6.4%  | 6.5%  | 6.5%  | <b>Return on Total Cap'l</b>  | 5.5%  |
|   |  |  |  | 12.1% | 13.9% | 10.7% | 11.2% | 10.0% | 7.2%  | 9.4%  | 7.8%  | 8.9%  | 9.1%  | 9.5%  | 10.5% | <b>Return on Shr. Equity</b>  | 9.0%  |
|   |  |  |  | 12.3% | 14.1% | 10.8% | 11.4% | 10.1% | 7.2%  | 9.5%  | 7.9%  | 9.0%  | 9.3%  | 9.5%  | 10.5% | <b>Return on Com Equity</b>   | 9.0%  |
| <b>CURRENT POSITION</b>   |  |  |  | 3.8%  | 6.0%  | 2.8%  | 3.5%  | 1.8%  | NMF   | 1.0%  | .7%   | 2.1%  | 2.1%  | 2.5%  | 4.0%  | <b>Retained to Com Eq</b>     | 3.0%  |
| <b>2004 2005 3/31/06</b>  |  |  |  | 69%   | 58%   | 74%   | 70%   | 82%   | 119%  | 90%   | 91%   | 77%   | 77%   | 73%   | 63%   | <b>All Div'ds to Net Prof</b> | 67%   |

**California Water Service Group looks to be dealing with a more favorable regulatory administration.** In the past, the California Public Utilities Commission (CPUC), which is in charge of supervising local utilities, was not very friendly to those seeking rate relief. Indeed, decisions were typically unfavorable compared to other states and, in many cases, delayed. However, since taking office, Governor Schwarzenegger has made it a priority to correct the regulatory environment. Personnel changes made under his tenure have improved the climate for rates of return, and significantly cleared the backlog of cases pending decisions. This is obviously a positive development for CWT, which files a general rate case (GRC) each year for eight of its 24 districts. It is currently waiting for a ruling on its 2005 GRC, requesting about \$11 million, assuming a 12.23% return on equity. Meanwhile, the commission has also ruled that utilities could recover costs tracked in balancing accounts without having to pass an earnings test. We look for a double-digit earnings advance this year.

**Infrastructure costs will probably remain a thorn in the company's side going forward, though.** The costs of maintaining well and pipeline infrastructures continue to rise due to the growing demands of the EPA for drinking water standards. However, CWT does not currently have the means to continuously meet these expenses and will likely have to look to equity and debt markets to foot the bill. Meanwhile, we are also concerned that the financial burden will prevent CWT from taking advantage of the highly fragmented industry and making acquisitions. Therefore, we look for bottom-line growth to moderate considerably in 2007 and thereafter out to late decade.

**Most investors will want to take a pass on these untimely shares.** Indeed, they still hold below-average 3- to 5-year appreciation potential, despite about a 25% slide in price since our April review. (Business appears to be fine, although the stock got ahead of itself.) Dividend growth is likely to be slow but steady. However, the current yield doesn't especially stand out. Income-minded investors have better alternatives to choose from.

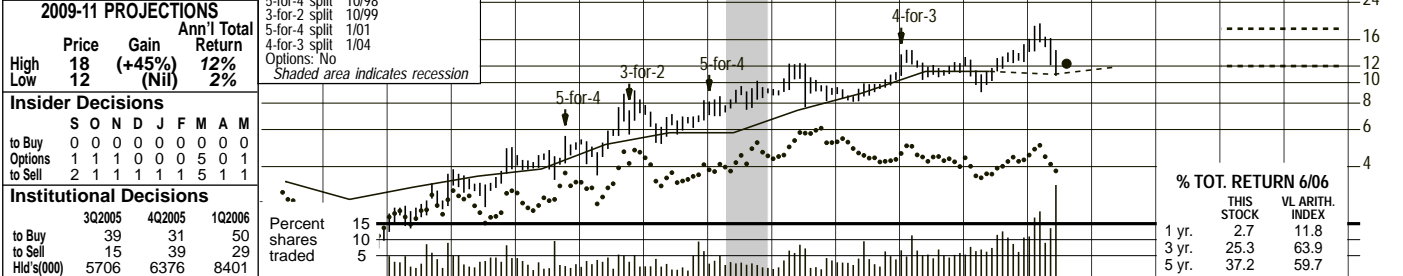
Andre J. Costanza July 28, 2006

|  |   |  |                                      |  |                                  |
|--|---|--|--------------------------------------|--|----------------------------------|
| (A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7c); '01, 4c; '02, 8c. Next earnings report due late October. | (B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available. | (C) Incl. deferred charges. In '05: \$63.9 mill., \$3.47/sh. | (D) In millions, adjusted for split. | (E) May not total due to change in shares. | Company's Financial Strength B++ |
|  |   |  |                                      |  | Stock's Price Stability 85       |
|  |   |  |                                      |  | Price Growth Persistence 95      |
|  |   |  |                                      |  | Earnings Predictability 65       |

# SOUTHWEST WATER NDQ-SWWC

RECENT PRICE **12.30** P/E RATIO **33.2** (Trailing: 32.4 Median: 19.0) RELATIVE P/E RATIO **1.91** DIV'D YLD **1.7%** VALUE LINE

|                                     |   |  |                                      |
|-------------------------------------|---|--|--------------------------------------|
| TIMELINESS <b>4</b> Lowered 3/24/06 | High: 2.1 3.7 5.0 5.6 9.2 8.3 10.2 12.4 11.2 14.3 15.2 19.1   | Low: 1.5 2.0 2.6 3.5 3.6 5.1 6.9 7.6 8.1 10.3 9.0 10.8 | Target Price Range<br>2009 2010 2011 |
| SAFETY <b>3</b> New 10/28/05        | LEGENDS<br>2.50 x Dividends p sh divided by Interest Rate<br>..... Relative Price Strength<br>6-for-5 split 12/96<br>5-for-4 split 10/98<br>3-for-2 split 10/99<br>5-for-4 split 1/01<br>4-for-3 split 1/04<br>Options: No<br>Shaded area indicates recession |  |                                      |
| TECHNICAL <b>3</b> Lowered 6/30/06  |   |  |                                      |
| BETA .70 (1.00 = Market)            |   |  |                                      |



| 1990  | 1991  | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | © VALUE LINE PUB., INC.          | 09-11 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---|-------|----------------------------------|-------|
| 3.58  | 3.34  | 3.77  | 4.03  | 4.20  | 4.84  | 5.31  | 5.61  | 5.63  | 6.16  | 7.49  | 8.15  | 9.12  | 10.70 | 9.23  | 9.10  | 9.35  | 10.00 | Revenues per sh                  | 12.10 |
| .46   | .28   | .44   | .38   | .38   | .44   | .46   | .53   | .59   | .65   | .76   | .87   | .86   | .91   | .67   | .78   | .85   | .95   | "Cash Flow" per sh               | 1.25  |
| .22   | .02   | .19   | .08   | .09   | .12   | .15   | .21   | .25   | .31   | .38   | .42   | .39   | .44   | .23   | .34   | .37   | .45   | Earnings per sh <sup>A</sup>     | .70   |
| .18   | .18   | .18   | .14   | .08   | .08   | .09   | .09   | .10   | .11   | .13   | .14   | .15   | .16   | .18   | .20   | .23   | .25   | Div'd Decl'd per sh <sup>B</sup> | .31   |
| .50   | .39   | .42   | .60   | .72   | .84   | .95   | .74   | .79   | .53   | .55   | 1.06  | 1.78  | 1.14  | 1.26  | 1.66  | 1.50  | 1.50  | Cap'l Spending per sh            | 1.90  |
| 2.57  | 2.41  | 2.42  | 2.31  | 2.31  | 2.45  | 2.40  | 2.52  | 2.70  | 3.05  | 3.44  | 3.84  | 4.27  | 4.90  | 6.17  | 6.49  | 6.70  | 6.95  | Book Value per sh <sup>D</sup>   | 7.90  |
| 11.48 | 11.60 | 11.80 | 11.97 | 12.13 | 11.74 | 12.45 | 12.65 | 12.83 | 13.12 | 13.99 | 14.17 | 14.35 | 16.17 | 20.36 | 22.33 | 23.00                                       | 23.00 | Common Shs Outst'g <sup>C</sup>  | 24.00 |
| 14.2  | NMF   | 14.5  | 35.8  | 22.3  | 14.6  | 16.5  | 16.9  | 17.2  | 19.6  | 17.0  | 19.8  | 24.8  | 21.2  | NMF   | 35.5  | Bold figures are<br>Value Line<br>estimates |       | Avg Ann'l P/E Ratio              | 21.0  |
| 1.05  | NMF   | .88   | 2.11  | 1.46  | .98   | 1.03  | .97   | .89   | 1.12  | 1.11  | 1.01  | 1.35  | 1.21  | NMF   | 1.90  |   |       | Relative P/E Ratio               | 1.40  |
| 5.7%  | 5.5%  | 6.6%  | 4.7%  | 4.2%  | 4.7%  | 3.4%  | 2.7%  | 2.3%  | 1.8%  | 2.0%  | 1.7%  | 1.5%  | 1.7%  | 1.5%  | 1.6%  |   |       | Avg Ann'l Div'd Yield            | 1.5%  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |                        |       |
|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|------------------------|-------|
| <b>CAPITAL STRUCTURE as of 3/31/06</b>                   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Revenues (\$mill)      | 290   |
| Total Debt \$132.1 mill. Due in 5 Yrs \$45.0 mill.       |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Net Profit (\$mill)    | 15.0  |
| LT Debt \$122.6 mill. LT Interest \$7.0 mill.            |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Income Tax Rate        | 36.0% |
| (Total interest coverage: 1.4x) (45% of Cap'l)           |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | AFUDC % to Net Profit  | 11.5% |
| <b>Leases, Uncapitalized:</b> Annual rentals \$6.7 mill. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Long-Term Debt Ratio   | 46.5% |
| <b>Pension Liability</b> None                            |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Common Equity Ratio    | 53.5% |
| <b>Pfd Stock</b> \$461,000 <b>Pfd Div'd</b> \$24,000     |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Total Capital (\$mill) | 355   |
| <b>Common Stock</b> 22,667,379 shs.                      |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Net Plant (\$mill)     | 545   |
| <b>as of 5/5/06</b>                                      |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Return on Total Cap'l  | 5.5%  |
| <b>MARKET CAP: \$275 million (Small Cap)</b>             |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Return on Shr. Equity  | 8.0%  |
| <b>CURRENT POSITION (SMILL.)</b>                         |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Return on Com Equity   | 8.0%  |
| 2004 2005 3/31/06  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | Retained to Com Eq     | 4.0%  |
| Cash Assets 1.9 3.0 2.6                                  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | All Div'ds to Net Prof | 47%   |
| Receivables 23.9 26.5 25.8                               |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |                        |       |
| Inventory (Avg Cst) 1.9 -- --                            |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |                        |       |
| Other 17.6 18.2 17.0                                     |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |                        |       |
| Current Assets 45.3 47.7 45.4                            |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |                        |       |
| Accts Payable 12.3 10.0 6.7                              |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |                        |       |
| Debt Due 3.4 9.5 9.5                                     |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |                        |       |
| Other 20.0 21.1 19.6                                     |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |                        |       |
| Current Liab. 35.7 40.6 35.8                             |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |                        |       |

**BUSINESS:** Southwest Water Company provides a broad range of services including water production, treatment and distribution; wastewater collection and treatment; utility billing and collection; utility infrastructure construction management; and public works services. It operates out of two groups, Utility (39% of 2005 revenues) and Services (61%). Utility owns and manages rate-regulated public water utilities in California, New Mexico, Oklahoma, and Texas. Services does mostly maintenance work on a contract basis. Off. & dir. own 8.2% of com. shs.; T. Rowe Price, 5.8% (4/06 proxy). Chairman: Anton C. Garner; CEO: Mark Swatek, Inc.: DE. Addr.: One Wilshire Building, 624 S. Grand Avenue, Ste. 2900, Los Angeles, CA 90017. Tel.: 213-929-1800. Internet: www.swwc.com.

**Southwest Water Company is struggling.** First-quarter share net was a penny above our estimate, but the out-performance was fleeting. Management revised down its full-year share earnings estimate; accordingly, we have reduced our 2006 assessment by \$0.05 (12%).

**Changes on the regulatory front in California should fuel profit growth at the Utility Group in the coming years.** Profitability for a water utility is largely dependent on state commissions. The commission determines the return on investment for a utility based on its operating costs and capital expenditures made to maintain the underlying infrastructure. California Governor Schwarzenegger nominated two candidates to fill vacant spots on the California Public Utilities Commission (CPUC) early last year. Until recently, return on investments allowed by the CPUC had been below those of many other states. With the regulatory situation improved, Southwest is seeking an 11% return on equity in its latest filing with the CPUC, compared to the current allowed return of 9.8%.

**Increased costs are hurting the Services Group.** Margins have been spread thin here over the last few quarters, and during the March interim the business fell back into the red. While the recently acquired (in 2005) Alabama wastewater system has helped increase revenues, fixed costs have expanded at an equivalent rate. Services operates approximately 730 vehicles, which drive 18 million miles annually. Higher gasoline costs have offset much of the top-line gains in this segment. However, management anticipates it will be able to shrink the cost base with improved contract pricing over the next several months.

**Desalination technologies provide another avenue of growth.** The United States has been slow to adopt desalination as a way to boost water supply. However, saltwater intrusion into many coastal states may well make this technology compelling for many cities. Southwest stands to benefit from any shift towards desalination, given its experience in the field.

**Nonetheless, this untimely stock has limited appreciation potential,** based on its current quotation.

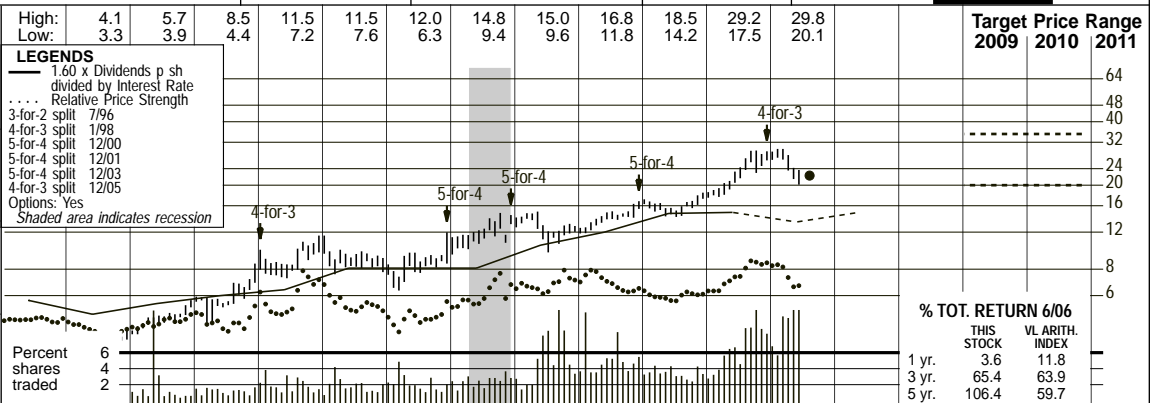
Praneeth Satish July 28, 2006

|                              |              |              |           |   |                    |             |           |             |                   |
|------------------------------|--------------|--------------|-----------|---|--------------------|-------------|-----------|-------------|-------------------|
| <b>AQUA AMERICA</b> NYSE-WTR | RECENT PRICE | <b>22.25</b> | P/E RATIO | <b>29.7</b> (Trailing: 32.2 Median: 23.0) | RELATIVE P/E RATIO | <b>1.71</b> | DIV'D YLD | <b>1.9%</b> | <b>VALUE LINE</b> |
|------------------------------|--------------|--------------|-----------|---|--------------------|-------------|-----------|-------------|-------------------|

[illegible][illegible]

| Insider Decisions |   |   |   |   |   |   |   |   |   |   |  |
|-------------------|---|---|---|---|---|---|---|---|---|---|--|
|                   | S | O | N | D | J | F | M | A | M |   |  |
| to Buy            | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |  |
| Options           | 2 | 3 | 2 | 1 | 2 | 2 | 0 | 1 | 0 |   |  |
| to Sell           | 3 | 3 | 2 | 1 | 2 | 1 | 0 | 1 | 0 |   |  |

| Institutional Decisions |        |        |       | Percent<br>shares<br>traded |   | THIS<br>STOCK<br>VL ARITH.<br>INDEX |       | % TOT. RETURN 6/06 |       |
|-------------------------|--------|--------|-------|-----------------------------|---|-------------------------------------|-------|--------------------|-------|
| 3Q2005                  | 4Q2005 | 1Q2006 |       | 6                           | 4 | 2                                   | 1 yr. | 3 yr.              | 5 yr. |
| to Buy                  | 124    | 112    | 111   |                             |   |                                     | 3.6   | 65.4               | 106.4 |
| to Sell                 | 73     | 123    | 93    |                             |   |                                     | 11.8  | 63.9               | 59.7  |
| Mld's(000)              | 37964  | 37756  | 39210 |                             |   |                                     |       |                    |       |



| 1990  | 1991  | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999   | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   | 2006  | 2007   | © VALUE LINE PUB., INC.          | 09-11  |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|---|--------|----------------------------------|--------|
| 2.02  | 2.14  | 1.82  | 1.70  | 1.82  | 1.84  | 1.86  | 2.02  | 2.09  | 2.41   | 2.46   | 2.70   | 2.85   | 2.97   | 3.48   | 3.85   | 4.15  | 4.60   | Revenues per sh                  | 5.05   |
| .43   | .45   | .39   | .42   | .42   | .47   | .50   | .56   | .61   | .72    | .76    | .86    | .94    | .96    | 1.09   | 1.21   | 1.30  | 1.40   | "Cash Flow" per sh               | 1.85   |
| .24   | .25   | .24   | .24   | .26   | .29   | .30   | .34   | .40   | .42    | .47    | .51    | .54    | .57    | .64    | .71    | .75   | .85    | Earnings per sh <sup>A</sup>     | 1.20   |
| .19   | .19   | .20   | .21   | .21   | .22   | .23   | .24   | .26   | .27    | .28    | .30    | .32    | .35    | .37    | .40    | .44   | .49    | Div'd Decl'd per sh <sup>B</sup> | .66    |
| .76   | .54   | .60   | .47   | .46   | .52   | .48   | .58   | .82   | .90    | 1.16   | 1.09   | 1.20   | 1.32   | 1.54   | 1.84   | 1.90  | 2.15   | Cap'l Spending per sh            | 2.60   |
| 2.10  | 2.07  | 2.09  | 2.29  | 2.41  | 2.46  | 2.69  | 2.84  | 3.21  | 3.42   | 3.85   | 4.15   | 4.36   | 5.34   | 5.89   | 6.30   | 6.75  | 7.20   | Book Value per sh                | 9.00   |
| 40.64 | 41.42 | 51.20 | 59.40 | 59.77 | 63.74 | 65.75 | 67.47 | 72.20 | 106.80 | 111.82 | 113.97 | 113.19 | 123.45 | 127.18 | 128.97 | 130.00  | 131.00 | Common Shs Outst'g <sup>C</sup>  | 134.00 |
| 10.2  | 10.8  | 12.5  | 14.4  | 13.5  | 12.0  | 15.6  | 17.8  | 22.5  | 21.2   | 18.2   | 23.6   | 23.6   | 24.5   | 25.1   | 31.8   | <i><b>Bold figures are<br/>Value Line<br/>estimates</b></i> |        | Avg Ann'l P/E Ratio              | 23.0   |
| .76   | .69   | .76   | .85   | .89   | .80   | .98   | 1.03  | 1.17  | 1.21   | 1.18   | 1.21   | 1.29   | 1.40   | 1.33   | 1.70   |   |        | Relative P/E Ratio               | 1.55   |
| 7.7%  | 7.2%  | 6.8%  | 5.9%  | 6.0%  | 6.2%  | 4.9%  | 3.9%  | 2.9%  | 3.0%   | 3.3%   | 2.5%   | 2.5%   | 2.5%   | 2.3%   | 1.8%   |   |        | Avg Ann'l Div'd Yield            | 2.4%   |

|  |       |       |       |       |       |       |       |       |       |       |       |       |                              |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------------------------|-------|
| <b>CAPITAL STRUCTURE as of 3/31/06</b>                           | 122.5 | 136.2 | 151.0 | 257.3 | 275.5 | 307.3 | 322.0 | 367.2 | 442.0 | 496.8 | 540   | 605   | Revenues (\$mill)            | 675   |
| <b>Total Debt \$1108.4 mill. Due in 5 Yrs \$280.0 mill.</b>      | 19.8  | 23.2  | 28.8  | 45.0  | 50.7  | 58.5  | 62.7  | 67.3  | 80.0  | 91.2  | 100   | 110   | <b>Net Profit (\$mill)</b>   | 160   |
| <b>LT Debt \$916.5 mill. LT Interest \$50.0 mill.</b>            | 41.4% | 40.6% | 40.5% | 38.4% | 38.9% | 39.3% | 38.5% | 39.3% | 39.4% | 38.4% | 39.0% | 39.0% | <b>Income Tax Rate</b>       | 39.0% |
| <b>(LT interest earned: 3.4x; total interest coverage: 2.9x)</b> | --    | --    | --    | --    | --    | --    | --    | --    | 2.9%  | 2.6%  | 2.5%  | 2.5%  | <b>AFUDC % to Net Profit</b> | 2.0%  |
| <b>(53% of Cap'l)</b>  | 51.1% | 51.1% | 50.7% | 50.2% | 50.2% | 50.2% | 51.0% | 51.1% | 50.2% | 50.2% | 51.2% | 51.2% |                              |       |

|   |       |       |       |       |       |       |        |        |        |        |              |              |                               |              |
|---|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------------|--------------|-------------------------------|--------------|
|   | 54.1% | 54.4% | 52.1% | 52.9% | 52.0% | 52.2% | 54.2%  | 51.4%  | 50.0%  | 52.0%  | 51.0%        | 51.0%        | Long-term Debt Ratio          | 51.0%        |
| <b>Pension Assets-12/05</b> \$117.7 mill. | 44.0% | 44.8% | 46.6% | 46.7% | 47.8% | 47.7% | 45.8%  | 48.6%  | 50.0%  | 48.0%  | <b>49.0%</b> | <b>49.0%</b> | <b>Common Equity Ratio</b>    | <b>49.0%</b> |
| <b>Obblig.</b> \$179.7 mill.              | 401.7 | 427.2 | 496.6 | 782.7 | 901.1 | 990.4 | 1076.2 | 1355.7 | 1497.3 | 1690.4 | <b>1785</b>  | <b>1920</b>  | <b>Total Capital (\$/mil)</b> | <b>2465</b>  |

|   |       |       |       |        |        |        |        |        |        |        |      |      |                       |      |
|---|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|------|------|-----------------------|------|
| Pfd Stock None                                | 502.9 | 534.5 | 609.8 | 1135.4 | 1251.4 | 1368.1 | 1490.8 | 1824.3 | 2069.8 | 2280.0 | 2410 | 2545 | Net Plant (\$mill)    | 3010 |
| Common Stock 129,512,881 shares as of 4/21/06 | 6.8%  | 7.4%  | 7.6%  | 7.6%   | 7.4%   | 7.8%   | 7.6%   | 6.4%   | 6.7%   | 6.9%   | 7.0% | 7.5% | Return on Total Cap'l | 8.0% |

|  |       |       |       |       |       |       |       |       |       |       |       |       |                       |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------------------|-------|
|  | 10.7% | 11.9% | 12.3% | 12.2% | 11.7% | 12.3% | 12.7% | 10.2% | 10.7% | 11.2% | 11.5% | 11.5% | Return on Shr. Equity | 13.5% |
| <b>MARKET CAP: \$2.9 billion (Mid Cap)</b> | 11.2% | 12.0% | 12.4% | 12.3% | 11.7% | 12.4% | 12.7% | 10.2% | 10.7% | 11.2% | 11.5% | 11.5% | Return on Com Equity  | 13.5% |

| CURRENT POSITION<br>(\$MILL.) | 2004 | 2005 | 3/31/06 | 2.8% | 3.6% | 4.5% | 4.3% | 4.7% | 5.1% | 5.2% | 4.2% | 4.6% | 4.9% | 5.0% | 5.5% | Retained to Com Eq    | 6.0% |
|-------------------------------|------|------|---------|------|------|------|------|------|------|------|------|------|------|------|------|-----------------------|------|
| Cash Assets                   | 13.1 | 11.9 | 51.4    | 75%  | 70%  | 64%  | 65%  | 60%  | 59%  | 59%  | 59%  | 57%  | 56%  | 57%  | 58%  | All Div's to Net Prof | 55%  |

|                    |       |       |       |  |
|--------------------|-------|-------|-------|--|
| Receivables        | 64.5  | 62.7  | 57.6  | <b>BUSINESS:</b> Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.5 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '05: residential, 59%; commercial, 15%; industrial & other, 26%. Officers and directors own 1.2% of the common stock (4/06 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: <a href="http://www.aquaamerica.com">www.aquaamerica.com</a> . |
| Inventory (AvgCst) | 6.9   | 7.8   | 8.8   |  |
| Other              | 5.6   | 7.6   | 8.0   |  |
| Current Assets     | 90.1  | 90.0  | 125.8 |  |
| Accts Payable      | 23.5  | 55.5  | 29.9  |  |
| Debt Due           | 135.3 | 163.1 | 191.9 |  |
| Other              | 58.6  | 44.7  | 46.7  |  |
| Current Liab.      | 217.4 | 263.3 | 268.5 |  |
| Fix. Chg. Cov.     | 364%  | 377%  | 284%  |  |

| ANNUAL RATES<br>of change (per sh) | Past<br>10 Yrs. | Past<br>5 Yrs. | Est'd '03-'05<br>to '09-'11 |
|------------------------------------|-----------------|----------------|-----------------------------|
| Revenues                           | 7.0%            | 8.0%           | 7.0%                        |
| "Cash Flow"                        | 9.5%            | 9.5%           | 9.0%                        |
| Earnings                           | 9.0%            | 8.5%           | 11.0%                       |
| Dividends                          | 6.0%            | 6.5%           | 10.0%                       |
| Book Value                         | 9.5%            | 11.0%          | 7.0%                        |

| Calendar | QUARTERLY REVENUES (\$ mill.) |        |        |        | Full Year |
|----------|-------------------------------|--------|--------|--------|-----------|
|          | Mar.31                        | Jun.30 | Sep.30 | Dec.31 |           |
| 2003     | 80.5                          | 83.4   | 102.1  | 101.2  | 367.2     |
| 2004     | 99.8                          | 106.5  | 120.3  | 115.4  | 442.0     |
| 2005     | 114.0                         | 123.1  | 136.8  | 122.9  | 496.8     |
| 2006     | 117.9                         | 135    | 145    | 142.1  | 540       |
| 2007     | 135                           | 150    | 165    | 155    | 605       |

| Calendar | EARNINGS PER SHARE <sup>A</sup> |        |        |        | Full Year |
|----------|---------------------------------|--------|--------|--------|-----------|
|          | Mar.31                          | Jun.30 | Sep.30 | Dec.31 |           |
| 2003     | .11                             | .14    | .18    | .14    | .57       |
| 2004     | .13                             | .14    | .20    | .17    | .64       |
| 2005     | .15                             | .17    | .22    | .17    | .71       |
| 2006     | .13                             | .17    | .25    | .20    | .75       |
| 2007     | .16                             | .19    | .28    | .22    | .85       |

| Calendar | QUARTERLY DIVIDENDS PAID <sup>B</sup> |        |        |        | Full Year |
|----------|---------------------------------------|--------|--------|--------|-----------|
|          | Mar.31                                | Jun.30 | Sep.30 | Dec.31 |           |
| 2002     | .08                                   | .08    | .08    | .084   | .32       |
| 2003     | .084                                  | .084   | .084   | .09    | .34       |
| 2004     | .09                                   | .09    | .09    | .098   | .37       |
| 2005     | .098                                  | .098   | .098   | .108   | .40       |
| 2006     | .108                                  | .108   |        |        |           |

**BUSINESS:** Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.5 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '05: residential, 59%; commercial, 15%; industrial & other, 26%. Officers and directors own 1.2% of the common stock (4/06 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: [www.aquamerica.com](http://www.aquamerica.com).

**Aqua America is suffering from regulatory lag.** First-quarter share net was \$0.13, a bit below our estimate, and revenues, too, fell slightly (2%) short of our tally. The water utilities giant is being hurt by high fuel costs and unfavorable timing of its rate cases. The company is awaiting judgment on over \$50 million of annual rate hikes. The stock has come under increasing pressure since management announced first-half earnings growth in 2006 would be below historical averages. Therefore, we suspect profit growth this year will be confined to the latter two quarters. **Accordingly, earnings comparisons should turn positive by the September interim.** Aqua announced in June that a rate case settlement was approved in Pennsylvania. The win will augment annual revenue by about \$25 million, a 9.2% increase over current rates in the state. The new rates should take effect in time to support third-quarter revenue growth. **The acquisition of New York Water Service should further top-line advances in 2007.** The system would cost \$51 million and enhance Aqua's total customer count by 135,000 (5%). As well, it ought to contribute roughly \$0.02 a share to the bottom line beginning in 2007. Aqua already supplies water to New York, but because New York Water Service does not encroach on any existing infrastructure, cannibalization should be minimal. New York will become Aqua's seventh-largest state when the deal closes later this year. **The company's growth strategy, for the most part, centers around acquisitions.** The highly fragmented nature of the water industry facilitates industry consolidation by big players like Aqua. Many of the smaller water utilities are run less efficiently than Aqua's divisions; it is their capacity for improvement that make them good targets for acquisition. The company's most recent purchase was a troubled water system in North Carolina, bringing the total number of transactions closed this year to 10. We expect another five deals to close by yearend. **This stock is ranked 5 (Lowest) for year-ahead performance.** Despite a recent price drop, Aqua is still trading at a hefty premium. Moreover, the water utility sector seems to be cooling down.

*Praneeth Satish* *July 28, 2006*

others. Water supply revenues '05: residential, 59%; commercial, 15%; industrial & other, 26%. Officers and directors own 1.2% of the common stock (4/06 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: [www.aquaamerica.com](http://www.aquaamerica.com).

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**This stock is ranked 5 (Lowest) for year-ahead performance.** Despite a recent price drop, Aqua is still trading at a hefty premium. Moreover, the water utility sector seems to be cooling down.

*Praneeth Satish* *July 28, 2006*

|   |  |   |  |   |
|---|--|---|--|---|
| <p><b>(A)</b> Primary shares outstanding through '96; diluted thereafter. Excl. nonrec. gains (losses): '90, (38¢); '91, (34¢); '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from</p> | <p>disc. operations: '96, 2¢. Next earnings report due early August. <b>(B)</b> Dividends historically paid in early March, June, Sept. &amp; Dec. ■ Div'd. reinvestment plan available (5% discount).</p> | <p><b>(C)</b> In millions, adjusted for stock splits.</p> | <p><b>Company's Financial Strength</b><br/><b>Stock's Price Stability</b><br/><b>Price Growth Persistence</b><br/><b>Earnings Predictability</b></p> | <p><b>B+</b><br/><b>85</b><br/><b>95</b><br/><b>100</b></p> |
|---|--|---|--|---|

|  |   |   |
|--|---|---|
| disc. operations: '96, 2¢. Next earnings report due early August. (B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount). | (C) In millions, adjusted for stock splits. | <b>Company's Financial Strength</b> B+<br><b>Stock's Price Stability</b> 85<br><b>Price Growth Persistence</b> 95<br><b>Earnings Predictability</b> 100 |
|--|---|---|

|   |                              |    |
|---|------------------------------|----|
| (C) In millions, adjusted for stock splits. | Company's Financial Strength | B+ |
|---|------------------------------|----|

|                              |     |
|------------------------------|-----|
| Company's Financial Strength | B+  |
| Stock's Price Stability      | 85  |
| Price Growth Persistence     | 95  |
| Earnings Predictability      | 100 |

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**To subscribe call 1-800-833-0046.**

## **ATTACHMENT B**





## Zacks.com Quotes and Research

**AMERICAN STS WTR CO (NYSE)**

No Fee IRAs

|     |       |         |          |             |           |
|-----|-------|---------|----------|-------------|-----------|
| AWR | 37.72 | ▼ -0.20 | (-0.53%) | Vol. 59,300 | 14:58 CST |
|-----|-------|---------|----------|-------------|-----------|

American States is a public utility company engaged principally in the purchase, production, distribution and sale of water. The company also distributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

**General Information**

AMER STATES WTR  
 630 East Foothill Boulevard  
 San Dimas, CA 91773  
 Phone: 909 394-3600  
 Fax: 909 394-0711  
 Web: [www.aswater.com](http://www.aswater.com)  
 Email: [investorinfo@aswater.com](mailto:investorinfo@aswater.com)

|                       |            |
|-----------------------|------------|
| Industry              | UTIL-WATER |
|                       | SPLY       |
| Sector:               | Utilities  |
| Fiscal Year End       | December   |
| Last Reported Quarter | 06/30/06   |
| Next EPS Date         | 08/09/2006 |

**Price and Volume Information**

|                        |            |
|------------------------|------------|
| Zacks Rank             |            |
| Yesterday's Close      | 37.92      |
| 52 Week High           | 42.39      |
| 52 Week Low            | 28.34      |
| Beta                   | 0.18       |
| 20 Day Moving Average  | 102,870.00 |
| Target Price Consensus | 46         |

**% Price Change**

|         |       |
|---------|-------|
| 4 Week  | 8.08  |
| 12 Week | -7.51 |

**% Price Change Relative to S&P 500**

|         |       |
|---------|-------|
| 4 Week  | 7.30  |
| 12 Week | -4.16 |

|                                  |            |                               |                     |
|----------------------------------|------------|-------------------------------|---------------------|
| YTD                              | 25.10      | YTD                           | 21.19               |
| <b>Share Information</b>         |            | <b>Dividend Information</b>   |                     |
| Shares Outstanding (millions)    | 16.83      | Dividend Yield                | 2.34%               |
| Market Capitalization (millions) | 648.31     | Annual Dividend               | \$0.90              |
| Short Ratio                      | 7.55       | Payout Ratio                  | 0.00                |
| Last Split Date                  | 06/10/2002 | Change in Payout Ratio        | 0.00                |
|                                  |            | Last Dividend Payout / Amount | 05/11/2006 / \$0.22 |

|  |            |                                       |      |
|--|------------|---------------------------------------|------|
| <b>EPS Information</b>                 |            | <b>Consensus Recommendations</b>      |      |
| Current Quarter EPS Consensus Estimate | 0.40       | Current (1=Strong Buy, 5=Strong Sell) | 2.00 |
| Current Year EPS Consensus Estimate    | 1.50       | 30 Days Ago                           | 2.00 |
| Estimated Long-Term EPS Growth Rate    | 6.00       | 60 Days Ago                           | 3.00 |
| Next EPS Report Date                   | 08/09/2006 | 90 Days Ago                           | 3.00 |

**Fundamental Ratios**

|                      |       |                      |        |                       |        |
|----------------------|-------|----------------------|--------|-----------------------|--------|
| <b>P/E</b>           |       | <b>EPS Growth</b>    |        | <b>Sales Growth</b>   |        |
| Current FY Estimate: | 25.60 | vs. Previous Year    | 47.37% | vs. Previous Year     | 21.73% |
| Trailing 12 Months:  | 27.72 | vs. Previous Quarter | -6.67% | vs. Previous Quarter: | 4.80%  |
| PEG Ratio            | 4.27  |                      |        |                       |        |

|                     |       |            |      |            |      |
|---------------------|-------|------------|------|------------|------|
| <b>Price Ratios</b> |       | <b>ROE</b> |      | <b>ROA</b> |      |
| Price/Book          | 2.45  | 06/30/06   | -    | 06/30/06   | -    |
| Price/Cash Flow     | 13.31 | 03/31/06   | 8.97 | 03/31/06   | 2.73 |
| Price / Sales       | -     | 12/31/05   | 8.54 | 12/31/05   | 2.62 |

|                      |      |                    |      |                         |      |
|----------------------|------|--------------------|------|-------------------------|------|
| <b>Current Ratio</b> |      | <b>Quick Ratio</b> |      | <b>Operating Margin</b> |      |
| 06/30/06             | -    | 06/30/06           | -    | 06/30/06                | -    |
| 03/31/06             | 0.84 | 03/31/06           | 0.83 | 03/31/06                | 9.51 |
| 12/31/05             | 0.89 | 12/31/05           | 0.87 | 12/31/05                | 9.33 |

|                   |       |                       |       |                   |       |
|-------------------|-------|-----------------------|-------|-------------------|-------|
| <b>Net Margin</b> |       | <b>Pre-Tax Margin</b> |       | <b>Book Value</b> |       |
| 06/30/06          | -     | 06/30/06              | -     | 06/30/06          | -     |
| 03/31/06          | 20.77 | 03/31/06              | 20.77 | 03/31/06          | 15.89 |
| 12/31/05          | 20.53 | 12/31/05              | 20.53 | 12/31/05          | 15.73 |

|                           |       |                       |      |                        |       |
|---------------------------|-------|-----------------------|------|------------------------|-------|
| <b>Inventory Turnover</b> |       | <b>Debt-to-Equity</b> |      | <b>Debt to Capital</b> |       |
| 06/30/06                  | -     | 06/30/06              | -    | 06/30/06               | -     |
| 03/31/06                  | 63.44 | 03/31/06              | 1.00 | 03/31/06               | 50.11 |

|          |       |          |      |          |       |
|----------|-------|----------|------|----------|-------|
| 12/31/05 | 61.40 | 12/31/05 | 1.02 | 12/31/05 | 50.40 |
|----------|-------|----------|------|----------|-------|





## Zacks.com Quotes and Research

**CALIFORNIA WTR SVC GROUP (NYSE)**

No Fee IRAs

CWT 34.76 ▼ -0.43 (-1.22%)

Vol. 43,900

15:02 CST

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.

**General Information****CALIF WATER SVC**

1720 North First Street

San Jose, CA 95112

Phone: 408 367-8200

Fax: 408 437-9185

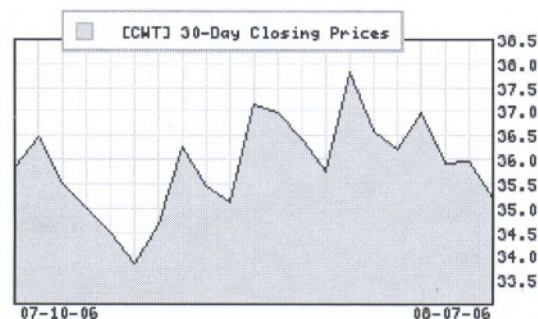
Web: [www.calwatergroup.com](http://www.calwatergroup.com)Email: [klichtenberg@calwater.com](mailto:klichtenberg@calwater.com)

Industry UTIL-WATER  
Sector: SPLY  
Utilities

Fiscal Year End December  
Last Reported Quarter 06/30/06  
Next EPS Date 10/25/2006

**Price and Volume Information**

Zacks Rank   
Yesterday's Close 35.19  
52 Week High 45.36  
52 Week Low 32.64  
Beta 0.47  
20 Day Moving Average 57,100.00  
Target Price Consensus 44.5

**% Price Change**

4 Week

**% Price Change Relative to S&P 500**

0.67 4 Week

-0.05



|         |        |         |        |
|---------|--------|---------|--------|
| 12 Week | -13.36 | 12 Week | -10.22 |
| YTD     | -5.89  | YTD     | -3.41  |

**Share Information**

|                                  |            |
|----------------------------------|------------|
| Shares Outstanding (millions)    | 18.41      |
| Market Capitalization (millions) | 662.28     |
| Short Ratio                      | 11.57      |
| Last Split Date                  | 01/26/1998 |

**Dividend Information**

|                               |                     |
|-------------------------------|---------------------|
| Dividend Yield                | 3.20%               |
| Annual Dividend               | \$1.15              |
| Payout Ratio                  | 0.00                |
| Change in Payout Ratio        | 0.00                |
| Last Dividend Payout / Amount | 05/04/2006 / \$0.29 |

**EPS Information**

|  |            |
|--|------------|
| Current Quarter EPS Consensus Estimate | 0.74       |
| Current Year EPS Consensus Estimate    | 1.60       |
| Estimated Long-Term EPS Growth Rate    | 9.00       |
| Next EPS Report Date                   | 10/25/2006 |

**Consensus Recommendations**

|                                       |      |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 2.33 |
| 30 Days Ago                           | 2.33 |
| 60 Days Ago                           | 2.33 |
| 90 Days Ago                           | 2.60 |

**Fundamental Ratios**

| P/E                  | EPS Growth                 | Sales Growth                  |
|----------------------|----------------------------|-------------------------------|
| Current FY Estimate: | 21.70 vs. Previous Year    | -% vs. Previous Year          |
| Trailing 12 Months:  | 26.07 vs. Previous Quarter | 675.00% vs. Previous Quarter: |
| PEG Ratio            | 2.41                       |                               |

| Price Ratios    | ROE            | ROA           |
|-----------------|----------------|---------------|
| Price/Book      | 2.25 06/30/06  | - 06/30/06    |
| Price/Cash Flow | 11.83 03/31/06 | 9.41 03/31/06 |
| Price / Sales   | 2.04 12/31/05  | 9.41 12/31/05 |

| Current Ratio | Quick Ratio   | Operating Margin |
|---------------|---------------|------------------|
| 06/30/06      | - 06/30/06    | - 06/30/06       |
| 03/31/06      | 0.54 03/31/06 | 0.49 03/31/06    |
| 12/31/05      | 0.68 12/31/05 | 0.63 12/31/05    |

| Net Margin | Pre-Tax Margin | Book Value    |
|------------|----------------|---------------|
| 06/30/06   | - 06/30/06     | - 06/30/06    |
| 03/31/06   | 8.43 03/31/06  | 8.43 03/31/06 |
| 12/31/05   | 8.49 12/31/05  | 8.49 12/31/05 |

| Inventory Turnover | Debt-to-Equity | Debt to Capital |
|--------------------|----------------|-----------------|
| 06/30/06           | - 06/30/06     | - 06/30/06      |

|          |       |          |      |          |       |
|----------|-------|----------|------|----------|-------|
| 03/31/06 | 55.23 | 03/31/06 | 0.94 | 03/31/06 | 48.28 |
| 12/31/05 | 56.99 | 12/31/05 | 1.90 | 12/31/05 | 65.53 |





## Zacks.com Quotes and Research

**SOUTHWEST WTR CO (NASDAQ)****Scottrade** No Fee IRAs
**SWWC**      12.98      ▲ 0.25      (1.96%)      Vol. 135,822

15:07 CST

Southwest Water Company provides a broad range of utility and utility management services and serves people from coast to coast. Through its various subsidiaries, Southwest operates and manages water and wastewater treatment facilities along with providing utility submetering and billing and collection services.

**General Information****SOUTHWEST WATER**

One Wilshire Building 624 South Grand Avenue  
Suite 2900  
Los Angeles, CA 90017-3782  
Phone: 213 929-1800  
Fax: 213 929-1888  
Web: [www.southwestwater.com](http://www.southwestwater.com)  
Email: [swwc@swwc.com](mailto:swwc@swwc.com)

Industry: UTIL-WATER  
Sector: SPLY  
Utilities

Fiscal Year End: December  
Last Reported Quarter: 06/30/06  
Next EPS Date: 08/09/2006

**Price and Volume Information**

Zacks Rank **P**  
Yesterday's Close: 12.73  
52 Week High: 19.03  
52 Week Low: 10.85  
Beta: 0.36  
20 Day Moving Average: 113,989.95  
Target Price Consensus: N/A

**% Price Change**

4 Week

**% Price Change Relative to S&P 500**

8.19 4 Week

7.41

|         |        |         |        |
|---------|--------|---------|--------|
| 12 Week | -18.91 | 12 Week | -15.97 |
| YTD     | -9.50  | YTD     | -13.49 |

**Share Information**

|                                  |            |
|----------------------------------|------------|
| Shares Outstanding (millions)    | 22.67      |
| Market Capitalization (millions) | 293.54     |
| Short Ratio                      | 11.99      |
| Last Split Date                  | 12/27/2002 |

**Dividend Information**

|                               |                     |
|-------------------------------|---------------------|
| Dividend Yield                | 1.62%               |
| Annual Dividend               | \$0.21              |
| Payout Ratio                  | 0.00                |
| Change in Payout Ratio        | 0.00                |
| Last Dividend Payout / Amount | 06/28/2006 / \$0.05 |

**EPS Information**

|  |            |
|--|------------|
| Current Quarter EPS Consensus Estimate | 0.13       |
| Current Year EPS Consensus Estimate    | 0.38       |
| Estimated Long-Term EPS Growth Rate    | 5.50       |
| Next EPS Report Date                   | 08/09/2006 |

**Consensus Recommendations**

|                                       |      |
|---------------------------------------|------|
| Current (1=Strong Buy, 5=Strong Sell) | 2.20 |
| 30 Days Ago                           | 2.20 |
| 60 Days Ago                           | 2.20 |
| 90 Days Ago                           | 2.00 |

**Fundamental Ratios**

| P/E                  | EPS Growth                 | Sales Growth                  |
|----------------------|----------------------------|-------------------------------|
| Current FY Estimate: | 34.08 vs. Previous Year    | 414.99% vs. Previous Year     |
| Trailing 12 Months:  | 34.47 vs. Previous Quarter | -50.00% vs. Previous Quarter: |
| PEG Ratio            | 6.20                       | -2.30%                        |

| Price Ratios    | ROE            | ROA           |
|-----------------|----------------|---------------|
| Price/Book      | 1.93 06/30/06  | - 06/30/06    |
| Price/Cash Flow | 15.96 03/31/06 | 5.97 03/31/06 |
| Price / Sales   | - 12/31/05     | 5.46 12/31/05 |

| Current Ratio | Quick Ratio   | Operating Margin |
|---------------|---------------|------------------|
| 06/30/06      | - 06/30/06    | - 06/30/06       |
| 03/31/06      | 1.27 03/31/06 | 1.27 03/31/06    |
| 12/31/05      | 1.18 12/31/05 | 1.18 12/31/05    |

| Net Margin | Pre-Tax Margin | Book Value    |
|------------|----------------|---------------|
| 06/30/06   | - 06/30/06     | - 06/30/06    |
| 03/31/06   | 6.15 03/31/06  | 6.15 03/31/06 |
| 12/31/05   | 5.59 12/31/05  | 5.59 12/31/05 |

| Inventory Turnover | Debt-to-Equity | Debt to Capital |
|--------------------|----------------|-----------------|
| 06/30/06           | - 06/30/06     | - 06/30/06      |



|          |                |               |       |
|----------|----------------|---------------|-------|
| 03/31/06 | - 03/31/06     | 0.83 03/31/06 | 45.14 |
| 12/31/05 | 24.69 12/31/05 | 0.81 12/31/05 | 44.74 |



## Zacks.com Quotes and Research

**AQUA AMERICA INC** (NYSE)**Scottrade** No Fee IRAs

WTR 22.39 ▼-0.62 (-2.69%) Vol. 501,100

15:04 CST

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.

**General Information**

AQUA AMER INC

762 W. Lancaster Avenue

Bryn Mawr, PA 19010-3489

Phone: 610 527-8000

Fax: 610 519-0989

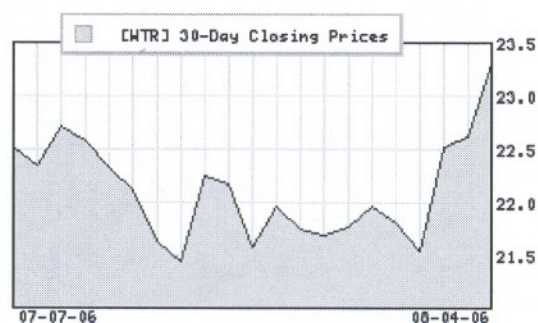
Web: [www.aquaamerica.com](http://www.aquaamerica.com)Email: [investorrelations@aquaamerica.com](mailto:investorrelations@aquaamerica.com)

Industry UTIL-WATER SPLY  
Sector: Utilities

Fiscal Year End December  
Last Reported Quarter 06/30/06  
Next EPS Date 11/08/2006

**Price and Volume Information**

Zacks Rank   
Yesterday's Close 23.01  
52 Week High 29.59  
52 Week Low 20.61  
Beta 0.18  
20 Day Moving Average 514,905.00  
Target Price Consensus 26.33

**% Price Change**

4 Week 2.28  
12 Week 0.34

**% Price Change Relative to S&P 500**

4 Week 1.55  
12 Week 3.98

|                                  |            |                               |                     |
|----------------------------------|------------|-------------------------------|---------------------|
| YTD                              | -14.61     | YTD                           | -21.46              |
| <b>Share Information</b>         |            | <b>Dividend Information</b>   |                     |
| Shares Outstanding (millions)    | 131.38     | Dividend Yield                | 1.83%               |
| Market Capitalization (millions) | 3,062.56   | Annual Dividend               | \$0.43              |
| Short Ratio                      | 8.67       | Payout Ratio                  | 0.00                |
| Last Split Date                  | 12/03/2001 | Change in Payout Ratio        | 0.00                |
|                                  |            | Last Dividend Payout / Amount | 05/16/2006 / \$0.11 |

|  |            |                                       |      |
|--|------------|---------------------------------------|------|
| <b>EPS Information</b>                 |            | <b>Consensus Recommendations</b>      |      |
| Current Quarter EPS Consensus Estimate | 0.24       | Current (1=Strong Buy, 5=Strong Sell) | 1.86 |
| Current Year EPS Consensus Estimate    | 0.75       | 30 Days Ago                           | 1.75 |
| Estimated Long-Term EPS Growth Rate    | 8.80       | 60 Days Ago                           | 2.25 |
| Next EPS Report Date                   | 11/08/2006 | 90 Days Ago                           | 2.43 |

**Fundamental Ratios**

|                      |       |                      |        |                       |        |
|----------------------|-------|----------------------|--------|-----------------------|--------|
| <b>P/E</b>           |       | <b>EPS Growth</b>    |        | <b>Sales Growth</b>   |        |
| Current FY Estimate: | 31.67 | vs. Previous Year    | -1.45% | vs. Previous Year     | 7.03%  |
| Trailing 12 Months:  | 33.90 | vs. Previous Quarter | 30.77% | vs. Previous Quarter: | 11.70% |
| PEG Ratio            | 3.62  |                      |        |                       |        |

|                     |       |            |       |            |      |
|---------------------|-------|------------|-------|------------|------|
| <b>Price Ratios</b> |       | <b>ROE</b> |       | <b>ROA</b> |      |
| Price/Book          | 3.69  | 06/30/06   | -     | 06/30/06   | -    |
| Price/Cash Flow     | 19.15 | 03/31/06   | 11.14 | 03/31/06   | 3.45 |
| Price / Sales       | 6.01  | 12/31/05   | 11.67 | 12/31/05   | 3.66 |

|                      |      |                    |      |                         |       |
|----------------------|------|--------------------|------|-------------------------|-------|
| <b>Current Ratio</b> |      | <b>Quick Ratio</b> |      | <b>Operating Margin</b> |       |
| 06/30/06             | -    | 06/30/06           | -    | 06/30/06                | -     |
| 03/31/06             | 0.47 | 03/31/06           | 0.44 | 03/31/06                | 17.74 |
| 12/31/05             | 0.34 | 12/31/05           | 0.31 | 12/31/05                | 18.35 |

|                   |       |                       |       |                   |      |
|-------------------|-------|-----------------------|-------|-------------------|------|
| <b>Net Margin</b> |       | <b>Pre-Tax Margin</b> |       | <b>Book Value</b> |      |
| 06/30/06          | -     | 06/30/06              | -     | 06/30/06          | -    |
| 03/31/06          | 28.93 | 03/31/06              | 28.93 | 03/31/06          | 6.38 |
| 12/31/05          | 29.81 | 12/31/05              | 29.81 | 12/31/05          | 6.31 |

|                           |      |                       |      |                        |       |
|---------------------------|------|-----------------------|------|------------------------|-------|
| <b>Inventory Turnover</b> |      | <b>Debt-to-Equity</b> |      | <b>Debt to Capital</b> |       |
| 06/30/06                  | -    | 06/30/06              | -    | 06/30/06               | -     |
| 03/31/06                  | 6.25 | 03/31/06              | 1.11 | 03/31/06               | 52.69 |



12/31/05

0.00 12/31/05

1.08 12/31/05

52.01



**GOLD CANYON SEWER COMPANY  
DOCKET NO. SW-02519A-06-0015  
TABLE OF CONTENTS TO SURREBUTTAL SCHEDULES WAR**

**SURREBUTTAL SCHEDULE #**

|         |  |
|---------|--|
| WAR - 1 | COST OF CAPITAL SUMMARY                      |
| WAR - 2 | DCF COST OF EQUITY CAPITAL                   |
| WAR - 3 | DIVIDEND YIELD CALCULATION                   |
| WAR - 4 | DIVIDEND GROWTH RATE CALCULATION             |
| WAR - 5 | DIVIDEND GROWTH COMPONENTS                   |
| WAR - 6 | GROWTH RATE COMPARISON                       |
| WAR - 7 | CAPM COST OF EQUITY CAPITAL                  |
| WAR - 8 | CAPITAL STRUCTURES OF SAMPLE COMPANIES       |
| WAR - 9 | WEIGHTED COST OF CAPITAL OF SAMPLE COMPANIES |

GOLD CANYON SEWER COMPANY  
TEST YEAR ENDED DECEMBER 31, 2004  
COST OF CAPITAL SUMMARY

DOCKET NO. SW-02519A-06-0015  
SURREBUTTAL SCHEDULE WAR - 1  
PAGE 1 OF 2

WEIGHTED COST OF CAPITAL

| LINE<br>NO. | DESCRIPTION              | (A)<br>CAPITAL<br>RATIO | (B)<br>COST | (C)<br>RUCO<br>WEIGHTED<br>COST |
|-------------|--------------------------|-------------------------|-------------|---------------------------------|
| 1           | DEBT                     | 40.00%                  | 8.45%       | 3.38%                           |
| 2           | PREFERRED STOCK          | 0.00%                   | 0.00%       | 0.00%                           |
| 3           | COMMON EQUITY            | 60.00%                  | 8.60%       | 5.16%                           |
| 4           | TOTAL CAPITALIZATION     | 100.00%                 |             |                                 |
| 5           | WEIGHTED COST OF CAPITAL |                         |             | 8.54%                           |

REFERENCES:

COLUMN (A): DIRECT TESTIMONY WAR

COLUMN (B): COLUMN (A) ÷ COLUMN (A), LINE 4

COLUMN (C): COLUMN (A) x COLUMN (B)

**GOLD CANYON SEWER COMPANY  
TEST YEAR ENDED DECEMBER 31, 2004  
COST OF CAPITAL SUMMARY**

**DOCKET NO. SW-02519A-06-0015  
SURREBUTTAL SCHEDULE WAR - 1  
PAGE 2 OF 2**

**SAMPLE COMPANIES APPROXIMATE WEIGHTED COSTS OF DEBT**

| <u>LINE NO.</u> | <u>STOCK SYMBOL</u>                               | <u>COMPANY</u>                   | <u>WEIGHTED COSTS</u> |                           |
|-----------------|---|----------------------------------|-----------------------|---------------------------|
| 1               | AWR   | AMERICAN STATES WATER CO.        | 7.12%                 |                           |
| 2               | CWT   | CALIFORNIA WATER SERVICE GROUP   | 6.51%                 |                           |
| 3               | SWWC  | SOUTHWEST WATER COMPANY          | 6.70%                 |                           |
| 4               | WTR   | AQUA AMERICA, INC.               | 5.74%                 |                           |
| 5               | CTWS  | CONNECTICUT WATER SERVICES, INC. | 5.13%                 |                           |
| 6               | MSEX  | MIDDLESEX WATER COMPANY          | 5.66%                 |                           |
| 7               | SJW   | SJW CORP.                        | 7.23%                 |                           |
| 8               | YORW  | YORK WATER COMPANY               | 7.48%                 |                           |
| 9               | AVERAGE OF APPROXIMATE WEIGHTED COSTS OF DEBT (a) |                                  | 6.45%                 | AVERAGE OF LINES 1 THRU 8 |
| 10              | ADD: 200 BASIS POINTS                             |                                  | <u>2.00%</u>          | DIRECT TESTIMONY WAR      |
| 11              | <b>RUCO RECOMMENDED COST OF DEBT</b>              |                                  | <u>8.45%</u>          | LINE 9 + LINE 10          |

REFERENCE:  
MOST RECENT SEC 10-K FILINGS

NOTE:  
(a) COSTS ARE APPROXIMATE AND DO NOT INCLUDE THE FOLLOWING:  
DEBT ISSUES THAT DID NOT HAVE STATED YIELDS; AND  
DEBT ISSUES WITH ZERO RATES OF INTEREST.  
IN THE CASE OF ISSUES WITH VARIABLE RATES OF INTEREST THE HIGH END OF THE VARIABLE RANGE WAS USED.

**GOLD CANYON SEWER COMPANY  
TEST YEAR ENDED DECEMBER 31, 2004  
DCF COST OF EQUITY CAPITAL**

**DOCKET NO. SW-02519A-06-0015  
SURREBUTTAL SCHEDULE WAR - 2**

| <u>LINE<br/>NO.</u> | <u>STOCK<br/>SYMBOL</u>      | <u>COMPANY</u>                 | <u>(A)<br/>DIVIDEND<br/>YIELD</u> | + | <u>(B)<br/>GROWTH<br/>RATE (g)</u> | = | <u>(C)<br/>DCF COST OF<br/>EQUITY CAPITAL</u> |
|---------------------|------------------------------|--------------------------------|-----------------------------------|---|------------------------------------|---|---|
| 1                   | AWR                          | AMERICAN STATES WATER CO.      | 2.49%                             | + | 7.25%                              | = | 9.74%   |
| 2                   | CWT                          | CALIFORNIA WATER SERVICE GROUP | 3.26%                             | + | 5.34%                              | = | 8.60%   |
| 3                   | SWWC                         | SOUTHWEST WATER COMPANY        | 1.72%                             | + | 5.25%                              | = | 6.97%   |
| 4                   | WTR                          | AQUA AMERICA, INC.             | 1.96%                             | + | 7.13%                              | = | 9.09%   |
| 5                   | <b>WATER COMPANY AVERAGE</b> |                                |                                   |   |                                    |   | 8.60%   |

**GOLD CANYON SEWER COMPANY  
TEST YEAR ENDED DECEMBER 31, 2004  
DIVIDEND YIELD CALCULATION**

**DOCKET NO. SW-02519A-06-0015  
SURREBUTTAL SCHEDULE WAR - 3**

| LINE<br>NO. | STOCK<br>SYMBOL              | COMPANY                        | (A)<br>ESTIMATED<br>DIVIDEND<br>(PER SHARE) | ÷ | (B)<br>AVERAGE<br>STOCK PRICE<br>(PER SHARE) | = | (C)<br>DIVIDEND<br>YIELD |
|-------------|------------------------------|--------------------------------|---|---|--|---|--------------------------|
| 1           | AWR                          | AMERICAN STATES WATER CO.      | \$0.90                                      | ÷ | \$36.14                                      | = | 2.49%                    |
| 2           | CWT                          | CALIFORNIA WATER SERVICE GROUP | 1.15  | ÷ | 35.33  | = | 3.26%                    |
| 3           | SWWC                         | SOUTHWEST WATER COMPANY        | 0.21  | ÷ | 12.09  | = | 1.72%                    |
| 4           | WTR                          | AQUA AMERICA, INC.             | 0.43  | ÷ | 22.07  | = | 1.96%                    |
| 5           | <b>WATER COMPANY AVERAGE</b> |                                |   |   |  |   | <b>2.36%</b>             |

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT  
SURVEY - RATINGS & REPORTS DATED 07/28/2006

COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 06/12/2006 TO 08/04/2006

STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES ([www.bigcharts.com](http://www.bigcharts.com)).

COLUMN (C): COLUMN (A) ÷ COLUMN (B)

**GOLD CANYON SEWER COMPANY  
TEST YEAR ENDED DECEMBER 31, 2004  
DIVIDEND GROWTH RATE CALCULATION**

**DOCKET NO. SW-02519A-06-0015  
SURREBUTTAL SCHEDULE WAR - 4  
PAGE 1 OF 2**

| LINE<br>NO. | STOCK<br>SYMBOL              | COMPANY                        | (A)<br>INTERNAL<br>GROWTH<br>( br ) | + | (B)<br>EXTERNAL<br>GROWTH<br>(sv) | = | (C)<br>DIVIDEND<br>GROWTH<br>(g) |
|-------------|------------------------------|--------------------------------|-------------------------------------|---|-----------------------------------|---|----------------------------------|
| 1           | AWR                          | AMERICAN STATES WATER CO.      | 5.00%                               | + | 2.25%                             | = | 7.25%                            |
| 2           | CWT                          | CALIFORNIA WATER SERVICE GROUP | 3.25%                               | + | 2.09%                             | = | 5.34%                            |
| 3           | SWWC                         | SOUTHWEST WATER COMPANY        | 4.45%                               | + | 0.80%                             | = | 5.25%                            |
| 4           | WTR                          | AQUA AMERICA, INC.             | 6.00%                               | + | 1.13%                             | = | 7.13%                            |
| 5           | <b>WATER COMPANY AVERAGE</b> |                                |                                     |   |                                   |   | <b>6.25%</b>                     |

REFERENCES:

COLUMN (A): SURREBUTTAL TESTIMONY, WAR

COLUMN (B): SURREBUTTAL SCHEDULE WAR - 4, PAGE 2, COLUMN C

COLUMN (C): COLUMN (A) + COLUMN (B)

**GOLD CANYON SEWER COMPANY  
TEST YEAR ENDED DECEMBER 31, 2004  
DIVIDEND GROWTH RATE CALCULATION**

**DOCKET NO. SW-02519A-06-0015  
SURREBUTTAL SCHEDULE WAR - 4  
PAGE 2 OF 2**

| LINE<br>NO. | STOCK<br>SYMBOL              | COMPANY                        | (A)<br><br>SHARE<br>GROWTH | (B)<br><br>$\{ [ ( ( M \div B ) + 1 ) \div 2 ] - 1 \}$ | (C)<br>EXTERNAL<br>GROWTH<br>( sv ) |
|-------------|------------------------------|--------------------------------|----------------------------|--|-------------------------------------|
| 1           | AWR                          | AMERICAN STATES WATER CO.      | 4.00%                      | $\times \{ [ ( ( 2.13 ) + 1 ) \div 2 ] - 1 \} =$       | 2.25%                               |
| 2           | CWT                          | CALIFORNIA WATER SERVICE GROUP | 3.75%                      | $\times \{ [ ( ( 2.12 ) + 1 ) \div 2 ] - 1 \} =$       | 2.09%                               |
| 3           | SWWC                         | SOUTHWEST WATER COMPANY        | 2.00%                      | $\times \{ [ ( ( 1.80 ) + 1 ) \div 2 ] - 1 \} =$       | 0.80%                               |
| 4           | WTR                          | AQUA AMERICA, INC.             | 1.00%                      | $\times \{ [ ( ( 3.27 ) + 1 ) \div 2 ] - 1 \} =$       | 1.13%                               |
| 5           | <b>WATER COMPANY AVERAGE</b> |                                |                            |  | <b>1.57%</b>                        |

REFERENCES:

COLUMN (A): SURREBUTTAL TESTIMONY, WAR  
COLUMN (B): VALUE LINE INVESTMENT SURVEY  
- RATINGS & REPORTS DATED 04/28/2006  
COLUMN (C): COLUMN (A) x COLUMN (B)

**GOLD CANYON SEWER COMPANY  
TEST YEAR ENDED DECEMBER 31, 2004  
DIVIDEND GROWTH COMPONENTS**

**DOCKET NO. SW-02519A-06-0015  
SURREBUTTAL SCHEDULE WAR - 5**

| LINE NO. | STOCK SYMBOL | WATER COMPANY NAME             | OPERATING PERIOD   | (A)<br>RETENTION RATIO (b) | (B)<br>RETURN ON BOOK EQUITY (r) | (C)<br>DIVIDEND GROWTH (g) | (D)<br>BOOK VALUE (\$/SHARE) | (E)<br>SHARES OUTST. (MILLIONS) | (F)<br>SHARE GROWTH |
|----------|--------------|--------------------------------|--------------------|----------------------------|----------------------------------|----------------------------|------------------------------|---------------------------------|---------------------|
| 1        | AWR          | AMERICAN STATES WATER CO.      | 2001               | 0.3556                     | 10.10%                           | 3.59%                      | 13.22                        | 15.12                           |                     |
| 2        |              |                                | 2002               | 0.3507                     | 9.50%                            | 3.33%                      | 14.05                        | 15.18                           |                     |
| 3        |              |                                | 2003               | -0.1282                    | 5.60%                            | -0.72%                     | 13.97                        | 15.21                           |                     |
| 4        |              |                                | 2004               | 0.1524                     | 6.60%                            | 1.01%                      | 15.01                        | 16.75                           |                     |
| 5        |              |                                | 2005               | 0.3182                     | 8.50%                            | 2.70%                      | 15.72                        | 16.80                           |                     |
| 6        |              |                                | GROWTH 2001 - 2005 |                            |                                  | 1.98%                      | 4.50%                        |                                 | 2.67%               |
| 7        |              |                                | 2006               | 0.4313                     | 9.50%                            | 4.10%                      |                              | 17.50                           | 4.17%               |
| 8        |              |                                | 2007               | 0.4424                     | 9.50%                            | 4.20%                      |                              | 18.25                           | 4.23%               |
| 9        |              |                                | 2009-11            | 0.4947                     | 10.00%                           | 4.95%                      | 5.00%                        | 20.50                           | 4.06%               |
| 10       |              |                                |                    |                            |                                  |                            |                              |                                 |                     |
| 11       | CWT          | CALIFORNIA WATER SERVICE GROUP | 2001               | -0.1915                    | 7.20%                            | -1.38%                     | 12.95                        | 15.18                           |                     |
| 12       |              |                                | 2002               | 0.1040                     | 9.50%                            | 0.99%                      | 13.12                        | 15.18                           |                     |
| 13       |              |                                | 2003               | 0.0744                     | 7.90%                            | 0.59%                      | 14.44                        | 16.93                           |                     |
| 14       |              |                                | 2004               | 0.2260                     | 9.00%                            | 2.03%                      | 15.66                        | 18.37                           |                     |
| 15       |              |                                | 2005               | 0.2245                     | 9.30%                            | 2.09%                      | 15.98                        | 18.39                           |                     |
| 16       |              |                                | GROWTH 2001 - 2005 |                            |                                  | 0.86%                      | 1.50%                        |                                 | 4.91%               |
| 17       |              |                                | 2006               | 0.3030                     | 9.50%                            | 2.88%                      |                              | 19.00                           | 3.32%               |
| 18       |              |                                | 2007               | 0.3371                     | 10.50%                           | 3.54%                      |                              | 19.50                           | 2.97%               |
| 19       |              |                                | 2009-11            | 0.3222                     | 9.00%                            | 2.90%                      | 5.00%                        | 22.00                           | 3.65%               |
| 20       |              |                                |                    |                            |                                  |                            |                              |                                 |                     |
| 21       | SWWC         | SOUTHWEST WATER COMPANY        | 2001               | 0.6667                     | 11.40%                           | 7.60%                      | 3.84                         | 14.17                           |                     |
| 22       |              |                                | 2002               | 0.6154                     | 9.70%                            | 5.97%                      | 4.27                         | 14.35                           |                     |
| 23       |              |                                | 2003               | 0.6364                     | 9.10%                            | 5.79%                      | 4.90                         | 16.17                           |                     |
| 24       |              |                                | 2004               | 0.2174                     | 3.60%                            | 0.78%                      | 6.17                         | 20.36                           |                     |
| 25       |              |                                | 2005               | 0.4118                     | 5.00%                            | 2.06%                      | 6.49                         | 22.33                           |                     |
| 26       |              |                                | GROWTH 2001 - 2005 |                            |                                  | 4.44%                      | 14.00%                       |                                 | 12.04%              |
| 27       |              |                                | 2006               | 0.3784                     | 5.00%                            | 1.89%                      |                              | 23.00                           | 3.00%               |
| 28       |              |                                | 2007               | 0.4444                     | 6.50%                            | 2.89%                      |                              | 23.00                           | 1.49%               |
| 29       |              |                                | 2009-11            | 0.5571                     | 8.00%                            | 4.46%                      | 5.00%                        | 24.00                           | 1.45%               |
| 30       |              |                                |                    |                            |                                  |                            |                              |                                 |                     |
| 31       | WTR          | AQUA AMERICA, INC.             | 2001               | 0.4118                     | 12.40%                           | 5.11%                      | 4.15                         | 113.97                          |                     |
| 32       |              |                                | 2002               | 0.4074                     | 12.70%                           | 5.17%                      | 4.36                         | 113.19                          |                     |
| 33       |              |                                | 2003               | 0.3860                     | 10.20%                           | 3.94%                      | 5.34                         | 123.45                          |                     |
| 34       |              |                                | 2004               | 0.4219                     | 10.70%                           | 4.51%                      | 5.89                         | 127.18                          |                     |
| 35       |              |                                | 2005               | 0.4366                     | 11.20%                           | 4.89%                      | 6.30                         | 128.97                          |                     |
| 36       |              |                                | GROWTH 2001 - 2005 |                            |                                  | 4.72%                      | 11.00%                       |                                 | 3.14%               |
| 37       |              |                                | 2006               | 0.4133                     | 11.50%                           | 4.75%                      |                              | 130.00                          | 0.80%               |
| 38       |              |                                | 2007               | 0.4235                     | 11.50%                           | 4.87%                      |                              | 131.00                          | 0.78%               |
| 39       |              |                                | 2009-11            | 0.4500                     | 13.50%                           | 6.08%                      | 7.00%                        | 134.00                          | 0.77%               |

**REFERENCES:**

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY  
- RATINGS & REPORTS DATED 07/28/2006

COLUMN (C): COLUMN (A) x COLUMN (B)

COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2001 - 2005

COLUMN (D): VALUE LINE INVESTMENT SURVEY

COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE

COLUMN (E): VALUE LINE INVESTMENT SURVEY

COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN



GOLD CANYON SEWER COMPANY  
TEST YEAR ENDED DECEMBER 31, 2004  
GROWTH RATE COMPARISON

DOCKET NO. SW-02519A-06-0015  
SURREBUTTAL SCHEDULE WAR - 6

WATER COMPANY SAMPLE:

| LINE NO. | STOCK SYMBOL | (A)             | (B)       | (C)    |                          |       | (D)    |                         |        | (E)                      | (F)    |                               |        |
|----------|--------------|-----------------|-----------|--------|--------------------------|-------|--------|-------------------------|--------|--------------------------|--------|-------------------------------|--------|
|          |              | ( br ) + ( sv ) | ZACKS EPS | EPS    | VALUE LINE PROJECTED DPS | BVPS  | EPS    | VALUE LINE HISTORIC DPS | BVPS   | VALUE LINE & ZACKS AVGS. | EPS    | 5 - YEAR COMPOUND HISTORY DPS | BVPS   |
| 1        | AWR          | 7.25%           | 6.00%     | 4.50%  | 1.00%                    | 5.00% | -2.50% | 1.00%                   | 4.50%  | 2.79%                    | -0.56% | 0.85%                         | 4.43%  |
| 2        | CWT          | 5.34%           | 9.00%     | 4.50%  | 1.00%                    | 5.00% | -4.00% | 1.00%                   | 1.50%  | 2.57%                    | 11.83% | 0.44%                         | 5.40%  |
| 3        | SWWC         | 5.25%           | 5.50%     | 12.00% | 9.00%                    | 5.00% | 1.50%  | 10.00%                  | 14.00% | 8.14%                    | -5.15% | 9.33%                         | 14.02% |
| 4        | WTR          | 7.13%           | 8.80%     | 11.00% | 10.00%                   | 7.00% | 8.50%  | 6.50%                   | 11.00% | 8.97%                    | 8.62%  | 7.46%                         | 11.00% |
| 5        |              |                 |           | 8.00%  | 5.25%                    | 5.50% | 0.88%  | 4.63%                   | 7.75%  |                          | 3.69%  | 4.52%                         | 8.71%  |
| 6        | AVERAGES     | 6.25%           | 7.33%     |        | 6.25%                    |       |        | 4.42%                   |        | 5.62%                    |        | 5.64%                         |        |

REFERENCES:

COLUMN (A): SURREBUTTAL SCHEDULE WAR - 4, PAGE 1, COLUMN C

COLUMN (B): ZACKS INVESTMENT RESEARCH ([www.zacks.com](http://www.zacks.com))

COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 07/28/2006

COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 07/28/2006

COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1, 3, 5 AND 7

COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY  
- RATINGS & REPORTS DATED 07/28/2006

**GOLD CANYON SEWER COMPANY  
TEST YEAR ENDED DECEMBER 31, 2004  
CAPM COST OF EQUITY CAPITAL**

**DOCKET NO. SW-02519A-06-0015  
SURREBUTTAL SCHEDULE WAR - 7  
PAGE 1 OF 2**

BASED ON A GEOMETRIC MEAN:

| LINE<br>NO. | STOCK<br>SYMBOL       | (A) |   |                |   |   |      |   |   |                |   |                |   | (B)   |                    |
|-------------|-----------------------|-----|---|----------------|---|---|------|---|---|----------------|---|----------------|---|-------|--------------------|
|             |                       | k   | = | r <sub>f</sub> | + | [ | β    | x | ( | r <sub>m</sub> | - | r <sub>f</sub> | ) | =     | EXPECTED<br>RETURN |
| 1           | AWR                   | k   | = | 4.97%          | + | [ | 0.75 | x | ( | 10.40%         | - | 4.97%          | ) | =     | 9.04%              |
| 2           | CWT                   | k   | = | 4.97%          | + | [ | 0.80 | x | ( | 10.40%         | - | 4.97%          | ) | =     | 9.31%              |
| 3           | SWWC                  | k   | = | 4.97%          | + | [ | 0.70 | x | ( | 10.40%         | - | 4.97%          | ) | =     | 8.77%              |
| 4           | WTR                   | k   | = | 4.97%          | + | [ | 0.80 | x | ( | 10.40%         | - | 4.97%          | ) | =     | 9.31%              |
| 5           | WATER COMPANY AVERAGE |     |   |                |   |   | 0.76 |   |   |                |   |                |   | 9.11% |                    |

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [ \beta (r_m - r_f) ]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY  
r<sub>f</sub> = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)  
β = THE BETA COEFFICIENT OF A GIVEN SECURITY  
r<sub>m</sub> = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 06/22/2006 THROUGH 08/04/2006 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2005 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2006 YEARBOOK.

**GOLD CANYON SEWER COMPANY  
TEST YEAR ENDED DECEMBER 31, 2004  
CAPM COST OF EQUITY CAPITAL**

**DOCKET NO. SW-02519A-06-0015  
SURREBUTTAL SCHEDULE WAR - 7  
PAGE 2 OF 2**

BASED ON AN ARITHMETIC MEAN:

| LINE<br>NO. | STOCK<br>SYMBOL       | (A) |   |                |   |   |      |   |   |                |   | (B)            |   |        |                    |
|-------------|-----------------------|-----|---|----------------|---|---|------|---|---|----------------|---|----------------|---|--------|--------------------|
|             |                       | k   | = | r <sub>f</sub> | + | [ | β    | x | ( | r <sub>m</sub> | - | r <sub>f</sub> | ) | =      | EXPECTED<br>RETURN |
| 1           | AWR                   | k   | = | 4.97%          | + | [ | 0.75 | x | ( | 12.30%         | - | 4.97%          | ) | =      | 10.47%             |
| 2           | CWT                   | k   | = | 4.97%          | + | [ | 0.80 | x | ( | 12.30%         | - | 4.97%          | ) | =      | 10.83%             |
| 3           | SWWC                  | k   | = | 4.97%          | + | [ | 0.70 | x | ( | 12.30%         | - | 4.97%          | ) | =      | 10.10%             |
| 4           | WTR                   | k   | = | 4.97%          | + | [ | 0.80 | x | ( | 12.30%         | - | 4.97%          | ) | =      | 10.83%             |
| 5           | WATER COMPANY AVERAGE |     |   |                |   |   | 0.76 |   |   |                |   |                |   | 10.56% |                    |

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [ \beta (r_m - r_f) ]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY  
r<sub>f</sub> = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)  
β = THE BETA COEFFICIENT OF A GIVEN SECURITY  
r<sub>m</sub> = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 06/22/2006 THROUGH 08/04/2006 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2005 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2006 YEARBOOK.

**GOLD CANYON SEWER COMPANY**  
**TEST YEAR ENDED DECEMBER 31, 2004**  
**CAPITAL STRUCTURES OF SAMPLE COMPANIES**

**DOCKET NO. SW-02519A-06-0015**  
**SURREBUTTAL SCHEDULE WAR -**

| LINE<br>NO. |                 | AWR      | PCT.  | CWT      | PCT.  | SWWC     | PCT.  | WTR        | PCT.  | WATER COMPANY<br>AVERAGE | PCT.  |
|-------------|-----------------|----------|-------|----------|-------|----------|-------|------------|-------|--------------------------|-------|
| 1           | DEBT            | \$ 268.4 | 50.4% | \$ 274.1 | 48.0% | \$ 117.6 | 44.7% | \$ 878.4   | 52.0% | \$ 384.6                 | 50.3% |
| 2           |                 |          |       |          |       |          |       |            |       |                          |       |
| 3           | PREFERRED STOCK | 0.0      | 0.0%  | 3.5      | 0.6%  | 0.5      | 0.2%  | 0.0        | 0.0%  | 1.0                      | 0.1%  |
| 4           |                 |          |       |          |       |          |       |            |       |                          |       |
| 5           | COMMON EQUITY   | 264.1    | 49.6% | 293.9    | 51.4% | 144.8    | 55.1% | 811.9      | 48.0% | 378.7                    | 49.5% |
| 6           |                 |          |       |          |       |          |       |            |       |                          |       |
| 7           | TOTALS          | \$ 532.5 | 100%  | \$ 571.5 | 100%  | \$ 262.9 | 100%  | \$ 1,690.3 | 100%  | \$ 764.3                 | 100%  |

REFERENCE:  
 MOST RECENT SEC 10-K FILINGS

**FAR WEST WATER AND SEWER COMPANY**  
**TEST YEAR ENDED DECEMBER 31, 2004**  
**WEIGHTED COST OF CAPITAL OF SAMPLE COMPANIES**

**DOCKET NO. SW-02519A-06-0015**  
**SURREBUTTAL SCHEDULE WAR - 9**

| LINE NO. |                 | AWR     | CAPITAL RATIO | COST  | WEIGHTED COST | CWT      | CAPITAL RATIO | COST  | WEIGHTED COST |                        |               |       |               |
|----------|-----------------|---------|---------------|-------|---------------|----------|---------------|-------|---------------|------------------------|---------------|-------|---------------|
| 1        | DEBT            | \$268.4 | 50.4%         | 7.12% | 3.59%         | \$ 274.1 | 48.0%         | 6.51% | 3.12%         |                        |               |       |               |
| 2        |                 |         |               |       |               |          |               |       |               |                        |               |       |               |
| 3        | PREFERRED STOCK | 0.0     | 0.0%          | 0.00% | 0.00%         | 3.5      | 0.6%          | 4.40% | 0.03%         |                        |               |       |               |
| 4        |                 |         |               |       |               |          |               |       |               |                        |               |       |               |
| 5        | COMMON EQUITY   | 264.1   | 49.6%         | 9.74% | 4.83%         | 293.9    | 51.4%         | 8.60% | 4.4%          |                        |               |       |               |
| 6        |                 |         |               |       |               |          |               |       |               |                        |               |       |               |
| 7        | TOTALS          | \$532.5 | 100%          |       | 8.42%         | \$ 571.5 | 100%          |       | 7.573%        |                        |               |       |               |
| 8        |                 |         |               |       |               |          |               |       |               |                        |               |       |               |
| 9        |                 |         |               |       |               |          |               |       |               |                        |               |       |               |
| 10       |                 |         |               |       |               |          |               |       |               | WATER COMPANY AVERAGES |               |       |               |
| 11       |                 | SWWC    | CAPITAL RATIO | COST  | WEIGHTED COST | WTR      | CAPITAL RATIO | COST  | WEIGHTED COST | AVERAGE                | CAPITAL RATIO | COST  | WEIGHTED COST |
| 12       |                 |         |               |       |               |          |               |       |               |                        |               |       |               |
| 13       | DEBT            | \$117.6 | 44.7%         | 6.70% | 3.00%         | \$ 878.4 | 52.0%         | 5.74% | 2.98%         | \$ 384.6               | 50.3%         | 6.52% | 3.28%         |
| 14       |                 |         |               |       |               |          |               |       |               |                        |               |       |               |
| 15       | PREFERRED STOCK | 0.5     | 0.2%          | 5.05% | 0.01%         | 0.0      | 0.0%          | 0.00% | 0.00%         | 1.0                    | 0.1%          | 2.36% | 0.00%         |
| 16       |                 |         |               |       |               |          |               |       |               |                        |               |       |               |
| 17       | COMMON EQUITY   | 144.8   | 55.1%         | 6.97% | 3.84%         | 811.9    | 48.0%         | 9.09% | 4.37%         | 378.7                  | 49.5%         | 8.60% | 4.26%         |
| 18       |                 |         |               |       |               |          |               |       |               |                        |               |       |               |
| 19       | TOTALS          | \$262.9 | 100%          |       | 6.85%         | #####    | 100%          |       | 7.35%         | \$ 764.3               | 100%          |       | 7.54%         |

REFERENCE:

COSTS OF DEBT: SURREBUTTAL TESTIMONY SCHEDULE WAR-1, PAGE 2

COSTS OF PREFERRED STOCK: MOST RECENT SEC 10-K FILINGS

COSTS OF COMMON EQUITY: SURREBUTTAL TESTIMONY SCHEDULE WAR-2

CAPITAL RATIO: SURREBUTTAL TESTIMONY SCHEDULE WAR-8

WEIGHTED COST: CAPITAL RATIO x COST